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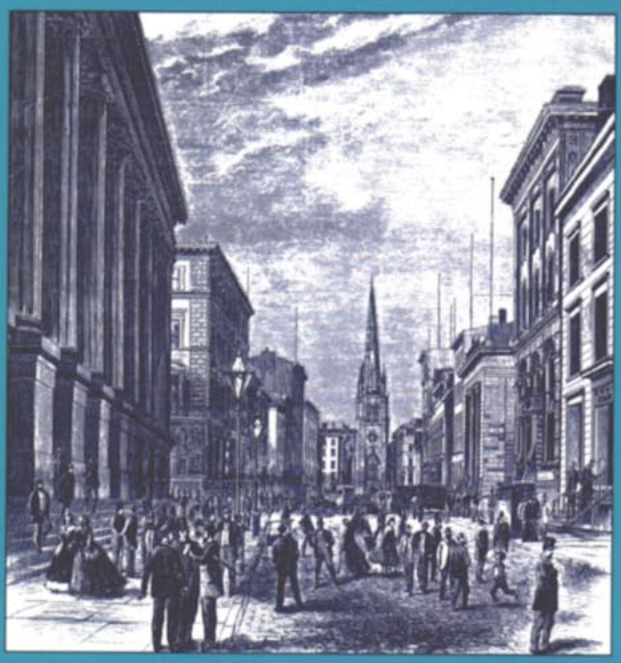
IDEAS ON LIBERTY



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The Courage to Try

Ancient Lessons

AUGUST 1996

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August 1996 Vol. 46, No. 8

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Irvington-on-Hudson, NY 10533
Phone (914) 591-7230 FAX (914) 591-8910
E-mail: freeman@westnet.com
President: Hans F. Sennholz
Managing Editor: Beth A. Hoffman
Guest Editor: Raymond J. Keating

Editor Emeritus
Paul L. Poirot
Lewisburg, Pennsylvania

Book Review Editor
Robert Batemarco
Marymount College, Tarrytown, New York

Associate Editor
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Assistant Editor
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Editorial Assistant
Mary Ann Murphy

Columnists
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Cato Institute, Washington, D.C.
Lawrence W. Reed
Mackinac Center for Public Policy
Midland, Michigan
Mark Skousen
Rollins College, Winter Park, Florida

Contributing Editors
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PERSPECTIVE

A New Beginning for Freedom

In a time when so much rancor and rhetoric fill the air, I would like to bring a contrarian's message—a message about exciting possibilities, a message that is hopeful, optimistic, and yet, I believe, realistic.

I am writing about a new beginning for freedom—not just for America, which is thrilling in itself, but also for the whole world. Because, for the first time in human history, the Free World encompasses more than half of all nations. The map is turning from dark to light. We have it within our grasp to bring alive a shining vision of freedom and prosperity for the whole human family. And, we are strengthening the principles of religion, property rights, and a society of laws and free markets to raise living standards dramatically for millions who have known only poverty and pain. Freedom's economic possibilities are staggering—and it will be very difficult to put the genie back in the bottle.

The recent liberation of Eastern Europe represents the greatest business marketing opportunity since the rebuilding of western Europe after World War II. Industrious and inventive people in the Far East are building a new economic superpower among the nations of the Pacific Rim. Even Latin America, despite the collapse of the Mexican peso, is struggling to move in a new direction. Indeed Latin America is struggling to throw off decades of corrupt statism in favor of less government, freer markets, and new incentives for their people.

In a word, freedom is busting out all over. It's springtime for worldwide liberty.

Perhaps the best proof is right next door. Communist diehard Fidel Castro just trimmed his beard and donned a business suit on his trip to France, as part of his P.R. campaign to persuade the free world to bail out Cuba. Castro said, yes, Cuba will permit some economic freedom because the Cuban

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system must, in his words, adapt to the realities of today's world.

Marxist academicians and dictators like Castro used to predict with brash conceit that freedom would be tossed into the dustbin of history. Well, guess whose principles ended up in the trash heap?

Many of our so-called intellectual leaders also predicted that advancing technology would give the State enormous power over its citizens. Television, cameras, and computers would create a "big brother," said George Orwell, watching every move we make, punishing any disobedience to the State. Well, it hasn't quite turned out that way.

Advances in new technologies and instant communications are creating an Information Age that is shrinking the planet with startling speed, and hurtling the world toward a new future—with more freedom, not less. Technology has become the great democratizer—turning the tables on the dictators, giving people information they want to know, without fear of censorship.

Look what's been happening. In Poland, the leaders of Solidarity credited the fax and copy machine as key instruments of their liberation. Once upon a time, you needed a tank to blast through walls. Today, with a computer, modem, or fax, you can pass right through them. You cannot only cross borders, you can dissolve them.

Who would have dreamed that something as small as a computer chip could contribute to knocking down something as big as the Berlin Wall? And, since governments can't jam a VCR like a radio signal, its pictures can expose the world to a new "home shopping network" of possibilities.

But, none of that would have happened without freedom. Freedom to invent and produce new technologies. Freedom to survive, to succeed, to fail—and move on to the next idea, dream, or venture.

So, yes, freedom is my passion. Because, if I may paraphrase a famous sports legend, Vince Lombardi, freedom isn't everything, it's the only thing. Freedom is the one idea that speaks to the unlimited possibility of the human spirit—and the only idea that has delivered on the promise of human progress. It is the idea that created America, and enabled America to create and defend freedom throughout the world.

I'd like to believe something within us has profoundly changed, and hopefully forever—that we've rid ourselves of our infatuation with so-called charismatic politicians who beguile us with clever promises and beautiful words. We've challenged, directly and defiantly, the fiction that our rights and income originate with Washington, and that government can only expand, never contract. We're learning a hard, bitter truth. Government, by trying to do too much, has undercut the ability of individual people in their communities, businesses, and churches to meet the real needs of America as we have in the past.

—WILLIAM E. SIMON, President
The John M. Olin Foundation

(Excerpted from Mr. Simon's remarks at a dinner at St. Leo College, Tampa, Florida, April 6, 1995.)

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The New York City Guide to Destroying an Economy

by Raymond J. Keating

New York City once served as an international beacon of economic opportunity, attracting individuals and entrepreneurs from around the globe. But for several decades, New York's entrepreneurial lights have been dimming, to the point now that they are all but extinguished.

What brought about the demise of this once great city? The answer lies on both sides of the big-government coin: an enormous welfare state and the implementation of some of the most burdensome taxes ever known to man. Indeed, New York City serves as a "how to" guide for destroying an economy.

Mind you, wrecking an economy such as New York City's was no simple feat. New York stood as an economic powerhouse for decades, a wellspring of risk-taking, invention, and creativity in a wide array of industries. City-economics guru Jane Jacobs observed: "Beginning in about 1800, New York enjoyed tremendously high rates of development for twelve or thirteen decades."[1] Later, Jacobs noted that the New York City economy "has been declining since at least the 1940s."[2]

Mr. Keating is Guest Editor of this issue of The Freeman. *He serves as chief economist with the Small Business Survival Foundation, co-authored* D.C. By The Numbers: A State of Failure, *and just completed his forthcoming book tentatively titled* New York By The Numbers: State and City in Perpetual Crisis.

Of course, New York City government lays claim to a long history of excessive expenditures and problems paying its bills. In 1907, for example, New York City Mayor George B. McClellan, Jr., son of the Civil War general, sought a bailout from private bankers—namely J.P. Morgan—when the city could not place its warrants.[3] But the fiscal crisis of the early 1930s was the turning point for the entire New York City economy. As the nation sank into depression between 1930 and 1932, the city raised taxes inflicting further economic harm. Indeed, during this period of tax hikes, the city's general revenues *declined* by $47 million while expenditures grew by almost $100 million. Eventually, bankers stepped in once again to the rescue, virtually running the city from 1934 to 1938.[4] Counterproductive tax hikes still continued, though, including the imposition of a city sales tax at 2 percent and a business gross receipts tax of less than 1 percent.

It was during the early Depression that New York City greatly expanded its public welfare web. Public assistance, along with widespread patronage and rising debt service tied to public works projects, pushed city expenditures skyward. A troubled economy ensured that city revenues failed to reach expectations.

While the immediate threat of the early 1930s fiscal crisis eventually was resolved, the fate of the city's economy was sealed.

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Higher city spending and taxes became the official governing model in New York City. The pattern of over-spending and a stagnant or declining economy would come to plague New York City time and time again.

Indeed, city government expanded relentlessly for decades. Between 1930 and 1965, for example, real per capita city spending increased by almost 350 percent. Recipients of public assistance in New York City increased from about 300,000 at the end of World War II to over 500,000 in 1965—a two-thirds jump while the city's population hardly grew at all. At the same time, property taxes—the city's prime source of revenues—doubled in real terms.

Albany's Share of the Blame

All of the blame for this expanding leviathan cannot be placed solely with New York City elected officials, however. State politicians played their parts as well. In addition to rubber stamping each city tax increase arriving at the Capitol in Albany (beyond property taxes, all general tax increases at the local level must be approved by the state), the state added its own burdens upon the city.

New York was one of the first seven states to levy a personal income tax. In 1919, state legislators claimed that the loss of liquor tax revenues due to Prohibition required the state to impose a tax on personal income. This was done over the protestations of the state's comptroller at the time, Eugene Travis, who saw the new tax as unnecessary.[5] The personal income tax was imposed in 1919 with a top rate of 3 percent. In the 1930s, the top rate hit 8 percent—7 percent plus a separate 1 percent income tax designed to "help" the state through the Depression (again, in reality only making matters worse). Some temporary state personal income tax relief was provided in the 1940s, but the top rate stood at 7 percent once again by 1954.

An additional tax measure, seemingly specifically designed to further extinguish entrepreneurial activity in New York, was imposed in February 1935. New York instituted a state unincorporated business tax—i.e., an income tax on income from unincorporated enterprises, in addition to the personal income tax—along with an "emergency" tax on capital gains. A glimpse of sanity could be briefly detected in 1938, however, when state officials at least saw that capital gains were being taxed too heavily, and provided for a 50 percent exclusion from taxation. Therefore, by 1954, the effective top capital gains tax on individuals registered 3.5 percent.

New York State levied its own corporate income tax in 1917. In the late 1950s, the corporate tax rate stood at 5.5 percent. All of these state income-based levies certainly took a toll on New York City, considerably hiking costs on the private sector.

Tragically, though, for all of New York City's tax and spending woes through the end of the 1950s, they soon would seem like child's play compared with the statist onslaught about to be unleashed. Liberal Republicans Nelson Rockefeller (elected New York's governor in 1958) and John Lindsay (elected mayor of New York City in 1965) arguably would turn out to be the two biggest tax-and-spend elected officials at the state and local level in our nation's history, following in the footsteps of another New Yorker, President Franklin Delano Roosevelt, probably the nation's all-time leading taxer-and-spender at the federal level. Indeed, New York carries considerable big government guilt.

At the state level, spending during the Rockefeller era—essentially spanning 1959 to 1975—would rise by 210 percent in real per capita terms. Over this period, real per capita state public welfare spending jumped by an incredible 625 percent. Meanwhile, by the mid-1970s, the state's top personal income tax rate reached 15.375 percent, the corporate tax rate hit a high of 12 percent, the capital gains tax rate topped 9 percent, and the state's unincorporated business tax registered 5.5 percent (a hike from 4 percent in 1968). In addition, Rockefeller imposed a state sales tax of 2 percent in 1965, which quickly jumped to 4 percent by 1971.

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A Plague of Taxes

As for the city, Mayor-elect John Lindsay stated in late November 1965 that the imposition of a city income tax was "definitely a last resort."[6] A mere four months later, the income tax rested at the center of Lindsay's first budget proposal and was implemented by June 1966. The "last resort" turned out to be the first resort. City and state elected officials signed off on myriad tax increases that year, including the imposition of a city personal income and capital gains tax with a top rate of 2 percent, a city corporate income tax of 5.5 percent, and a city unincorporated business tax of 4 percent! By the mid-1970s, New York City's personal income and capital gains tax rate had more than doubled to 4.3 percent and the corporate rate almost doubled to 10.05 percent.

Just over the period of 1965 to 1976, on a real per capita basis, city total expenditures more than doubled and public welfare expenditures increased by almost 335 percent. The city's debt service climbed 287 percent.

This great expansion of government spending and taxation led to New York City's great fiscal crisis of the mid-1970s. Sound economic incentives were obliterated at all income levels. The city's lucrative welfare system made sloth and idleness pay, compared with hard work and human capital investment, fostering government dependency. Indeed, by the mid-1970s, New York City's public welfare rolls topped 1.2 million in a city whose population was declining from 7.9 million in 1970 to just over 7 million in 1980.

Meanwhile, the tax burden on productive individuals and economic activity was prohibitive in New York City. The combined state and city marginal income tax rate equaled 19.675 percent in 1976, up by 181 percent from the 1959 rate of 7 percent. For entrepreneurs operating enterprises not incorporated, the combined state and city unincorporated business tax of 9.5 percent had to be added—creating a top income tax rate on New York's entrepreneurs of just under 30 percent! The capital gains tax reached 13.525 percent—of course, not indexed for inflation so the real rate was substantially higher. On the corporate side, the state and city tax rate topped 22 percent.

Plunder at Its Worst

While all taxes raise costs and distort the economy, no tax does more damage than the income tax. New York City's sky-high tax rates destroyed incentives for working, investing, and entrepreneurship. Indeed, individuals and businesses were provided with every incentive to leave New York City, and that's exactly what they did. While the city's economy certainly was in decline from the Great Depression through the early 1960s, it went into outright free fall in the late 1960s through the 1970s.

Despite the drunken frenzy favoring bigger government in New York City during this period, a few sober individuals could see the city was careening off the road. For example, as a candidate for mayor in 1965, William F. Buckley Jr. saw the city's woes quite clearly. In his 1966 book, *The Unmaking of a Mayor,* which chronicled his 1965 mayoral contest against Lindsay and Democrat Abraham Beame, Buckley observed quite simply about New York City: "The taxes are high, and the means of collecting them barbarous. . . .Yet no matter how high the taxes soar, things somehow do not appear to improve." In fact, Buckley went on to note how much worse things got in New York as government's reach extended ever farther.

Again, Jane Jacobs writing in 1968 recognized that New York's economic growth had come to a halt, citing many indicators: "absolute declines in the sheer number of enterprises in New York; persistent growth in the number of idle and underemployed poor; remarkable growth of unproductive make-work in the city bureaucracies, make-work which, more and more, is depended on to take up the slack of insufficient useful work for the city's high school and college graduates; piling up of undone work and unsolved practical problems; lack of new kinds of manufacturing work to compensate

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for the losses of old; a seemingly compulsive repetition of existing ways of doing things even though it is evident that what are being compulsively repeated are mistakes; lack of local development capital for new goods and services, accompanied by a surfeit of capital for projects that destroy existing enterprises and jobs, and quantities of capital for export."[7] That is, the city suffered a dearth of creativity and entrepreneurship.

The root cause for this debilitating dearth in New York City was a massive public sector. A monstrosity that literally became impossible to finance. Far too burdensome taxes—not to mention regulations—fostered an exodus of labor and capital. The city also could not float any short or long-term debt as the bond market knew that both taxes and debt levels in New York were far too high. The marketplace signaled New York that government was just too big.

Many people today, however, believe that New York City's great fiscal crisis ended when the city was able to return unassisted to the debt markets in 1979. And for a very brief period, some budget restraint was exhibited. From 1975–76 to 1980–81, for example, city spending *declined* on a real per capita basis by almost 25 percent, and city gross debt dropped by almost 60 percent. Impressive, but it left New York's spending and debt levels at astronomical heights, still light years ahead of the average for large U.S. cities. And from 1981 into the early 1990s, city spending and debt levels resumed a rather steady and steep ascent. As of 1992 (last year with full comparative data), New York City per capita spending topped the large city (300,000+ population) average by 131 percent, public welfare spending by 353 percent, and debt outstanding by 65 percent.

As for taxes, the city's personal income and capital gains tax actually rose to 4.73 percent by 1983, slowly declined to 3.4 percent by 1989, but then increased again to 4.46 percent by 1991. A small decline in the city's corporate tax rate occurred, to 8.85 percent. The 4 percent unincorporated business tax still hampers entrepreneurship.

Some headway was made on the state tax front after the mid-1970s, but it has been a slow, arduous process riddled with setbacks, such as a state capital gains tax hike of 62 percent in 1987. Tax reductions over these years, though, have brought the state's personal income and capital gains tax rate down to 6.85 percent (effective in 1997) and the state's corporate tax down to 10.53 percent in the New York City area and 9 percent elsewhere.

In New York City today, a combined state and city income tax rate on entrepreneurs tops 15 percent and the combined corporate rate reaches higher than 19 percent. The capital gains tax exceeds 11 percent, and again, grows much higher when inflation is factored into the equation. And roughly 2 million New York City residents receive some kind of public assistance.

As a result, New York City's private sector remains moribund. For example, there were fewer small businesses in New York City in the early 1990s than in 1969. In addition, between 1969 and 1995, total private-sector employment in New York City *declined* by 15 percent. In order to place the city back on an economic growth track, New York must shed its most severe governmental burdens—a massive welfare state paid for in part with high income taxes.

Since taking office in 1994, Mayor Rudolph Giuliani's spending proposals have only offered restraint or small cuts. For fiscal year 1996–97, he tepidly proposed allowing the city's personal income tax surcharge to expire—which would have dropped the tax rate from 4.46 percent to 3.91 percent. Even this minor step was opposed by the speaker of the New York City Council, and Giuliani actually retreated by the time he offered his final budget plan—instead pushing a four-year extension of the income tax surcharge! At the state level, Governor George Pataki has pushed for spending restraint and rather smallish tax cuts since his election in 1994.

Bolder actions must be taken. Recent New York history actually provides an example. Hugh Carey served as New York governor from 1975 to 1982. He too offered a little spending restraint—a brief respite

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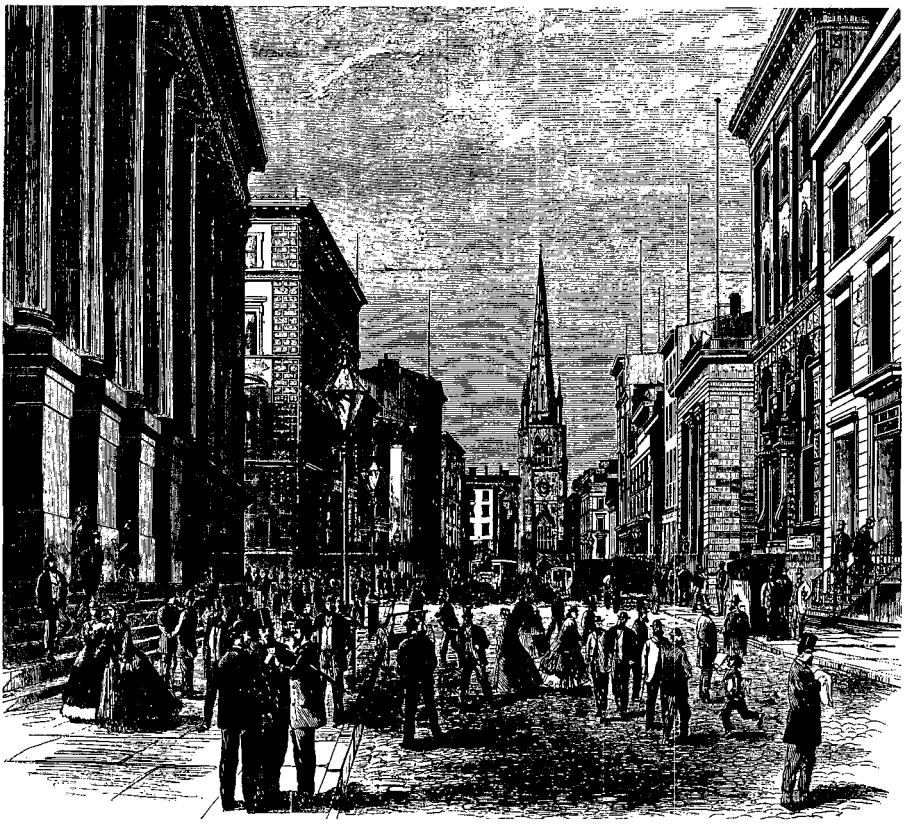

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Looking down Wall Street at Broadway's Trinity Church—1866.

between the big spending eras of Rockefeller and Mario Cuomo—and small cuts in personal and corporate income taxes. However, Carey also accomplished something monumental in New York. He actually got rid of a major tax. Under Carey's reign in the Governor's Mansion, the state *eliminated* its unincorporated business tax of 5.5 percent.

Indeed, "elimination" is the key to New York City's economic revitalization. Nothing less will suffice. The city personal income, capital gains, and corporate income taxes, and the distinctly anti-entrepreneur unincorporated business tax, must be eliminated. After all, few cities levy their *own* income taxes. And the cities imposing the most burdensome income levies possess dismal economic records. After New York City, Philadelphia and the District of Columbia stand out in this regard. Likewise, New York State should be moving to eliminate state personal income, capital gains, and corporate income taxes. Finally, of course, a state, city, and federal welfare system that destroys lives by fostering government dependency at the expense of individual responsibility also must be eliminated.

New York City's only chance at regaining economic greatness lies with restoring incentives to live, work, invest, and take risks in the city. That means throwing away New York's long-held big-government philosophy and opting instead for free markets, small government, and low taxes. □

1. Jane Jacobs, *The Economy of Cities* (New York: Vintage Books, 1970), original copyright 1960, p. 95.
2. Jane Jacobs, *Cities and the Wealth of Nations: Principles of Economic Life* (New York: Vintage Books, 1985), original copyright 1984, p. 179.
3. Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Atlantic Monthly Press, 1990), p. 126.
4. *Ibid.*, p. 225.
5. Ray B. Smith, *History of New York State: Political and Governmental*, Volume IV, 1896–1920 (Syracuse, N.Y.: The Syracuse Press, Inc., 1922), p. 316.
6. *The Wall Street Journal*, "Personal Income Tax for New York City Called 'Last Resort,'" November 30, 1965.
7. *The Economy of Cities*, pp. 96–97.

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Why Laws Backfire

by Marisa Manley

For thousands of years, laws everywhere have backfired.

In ancient Babylon, Sumeria, Egypt, China, Greece, and Rome, for instance, price controls promoted not fairness but famine. During the twentieth century, central banks were supposed to help safeguard economies, but they brought on the worst inflations and depressions. Alcohol and drug prohibition, intended to enforce moral behavior, contributed to escalating violence.

Why do laws tend to have consequences that are the opposite of what was intended?

First, many laws discourage socially useful behavior.

Although everyone needs housing—and politicians bemoan the lack of affordable housing—land use restrictions discourage entrepreneurs from trying to build it.

It is estimated that land use restrictions add $40,000 to the price of a new house in California. This pushes the median price of a home above $200,000, drives people out of the market, and discourages builders.

Or consider this. Before the 1942 imposition of rent control, New York City had a housing market one planner called the "envy of the world." Responding to market demand, developers produced more than 90,000 new units a year. Today, after five decades of rent control, there is little construction of new housing. The city owns 6,645 buildings and an estimated 76,000 dwellings have been abandoned because the owners found this more profitable than paying costs imposed by the city.

As *Barron's* reported, next to bombing, land use restrictions are the most effective way to destroy cities.

Second, laws often backfire by leading people to adopt all kinds of destructive behavior.

In recent years, New York City's policy of providing shelter for all who call themselves "homeless" has induced people to abandon the effort to support themselves, to give up their association with relatives, and to seek handouts. Reportedly, some 70 percent of people applying for shelter come directly from the homes of friends or relatives. City-provided shelter isn't very good, of course, but it's free, so there is a seemingly endless demand for it.

Welfare laws are supposed to help the poor, yet as Charles Murray and others have documented, welfare establishes powerful, perverse incentives for families to break up, since mothers lose government money if a father is present. The poverty rate among families with a single head of household is 600 percent higher than families with two heads of household. Infant mortality is much higher among single-head-of-household families, too.

Third, laws backfire by spreading problems to innocent people.

Consider compulsory school-attendance laws, for instance. They fill government schools with children who don't want to be there. Some students are violent, attack-

Ms. Manley is president of Commercial Tenant Real Estate Representation Ltd., Manhattan. Her articles have appeared in Harvard Business Review, Inc., *and the* Wall Street Journal.

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ing—and even killing—teachers and other students. Teachers must lock their classrooms to keep hoodlums at bay in the hallways. Thus, compulsory attendance laws, alleged to promote education, can make it almost impossible.

Private and parochial schools seldom experience violence even though they do not rely on metal detectors and security guards. As Rutgers University criminologist Jackson Toby remarked, "What makes a school safe is youngsters coming to school because they want to learn what teachers want to teach."

Banking laws backfire, too. The savings and loan crisis developed because in the early 1980s Washington increased deposit insurance to $100,000 at no cost to individual savers. This encouraged them to put their money wherever it would earn the highest interest, regardless of how unsound a bank's lending policies might be. The result, of course, was the debacle whose costs soared into the hundreds of billions of dollars. Such costs should have been borne by those who chose to take the risks. Instead they were imposed on innocent taxpayers who never put any money in an S&L.

One effort to deal with this government-induced crisis led to a second crisis. The 1989 Financial Institutions Reform and Recovery Act forced S&Ls to dump their junk bond portfolios. This law backfired because it triggered panic selling of junk bonds, and caused formerly profitable S&Ls to go bankrupt. The junk bond market has since come back, but innocent people who never put their money in an S&L are now stuck with higher burdens than ever.

Fourth, laws backfire by driving away talent and capital.

During the 1950s, the Euromarket got its start because many investors were worried about arbitrary IRS policies. They established bank accounts in London. In the 1960s, Washington enacted laws intended to prevent dollars from flowing out of the United States; but these laws backfired by increasing the demand for dollars already outside the country—and the Euromarket took off like a shot. Today the Euromarket handles some $500 billion of new debt annually.

Because tax laws are confiscatory in many countries, perhaps half the world's money is believed to be deposited in or passes through offshore tax havens. More than 23,500 companies and trusts are registered in the Cayman Islands alone.

New York City's government relentlessly multiplies the obstacles to enterprise, as if business people had no choice but to stay there. The result, of course, has been to drive away business and jobs. Since 1963, the number of major headquarters located in New York City plunged from 170 to 45—a 74 percent drop.

Similarly, the most oppressive regimes worldwide have experienced the greatest brain drain. There are now an estimated 40 million refugees from violent socialist regimes. This represents a dead loss to these regimes and a benefit for countries like Australia, Canada, and the United States. Refugees, like other immigrants, have a phenomenal record of creating jobs and contributing to economic growth.

Fifth, laws backfire by providing incentives for corruption.

Corruption didn't start when a New York City Housing official allegedly spent $337,000 redecorating her office.

Since time immemorial, governments have claimed moral superiority. Yet they use laws to loot the productive wealth of working people and build palaces, pyramids, religious monuments, military forces, and other symbols of their power.

The Soviet Union supposedly established a Marxist-Leninist society of equals, but as the British novelist George Orwell put it long ago, some were more equal than others. Party members could get luxuries officially denied to ordinary people, like caviar, prime beef, access to Black Sea spas, and better education for their children.

Sixth, laws backfire by provoking hatred and violence.

In the United States, affirmative action laws are encouraging an ever-increasing number of officially recognized minorities to escalate their demands for preferential

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treatment. But displaced groups resent being victims of these laws. Anecdotal evidence suggests that racial hostility is increasing.

The situation is much worse in other countries where government has even more power over people's lives. Laws determine specifically what is taught in schools, which religion is tolerated, which language is favored, how people can use property, where people can travel, who gets the jobs, and much more.

Consequently, control of government becomes a life-and-death issue, resulting in unending violence. In Northern Ireland, terrorists kill innocent women and children. In India, Hindus slaughter Moslems and Sikhs (each of these, in turn, slaughter Hindus). The former Soviet Union is aboil as Ukrainians, Poles, Rumanians, Georgians, Ossetians, Armenians, Uzbeks, and Russians fight to assert political control over others or escape political control. And of course, the former Yugoslavia has become a graveyard of murdered Serbs, Croats, Slovenes, Albanians, and others.

This violence has no counterpart in the marketplace. People who might not like each other still do business together because it's in their self-interest. Thus, despite mutual resentments, Jews have done business with Christians, Chinese with Malays, Poles with Germans, Hindus with Moslems, and so on.

Seventh, the problems brought about by laws often lead to popular pressure for more laws—and worse problems.

In recent years, the United States has increased its border restrictions. As people seeking better lives for their families continue to evade the tougher barriers, bureaucrats and labor unions clamor for more brutal enforcement.

- Drug prohibition agents have broken into private homes and destroyed private property without compensation.
- U.S. Department of Agriculture officials have destroyed the property of California citrus growers.
- Despite a chronic housing shortage, New York City bureaucrats have ordered the destruction of safe and clean apartments that run afoul of zoning regulations.

In "The Torrent of Laws" (*The Freeman*, January 1979), Henry Hazlitt made the point cogently: "The mere multiplication and proliferation of laws is itself a major evil. Every unnecessary law is itself bound to be pernicious. And almost all laws that interfere with the functioning of the free market tend to delay or prevent necessary readjustments in the balance of production and consumption and to have other consequences opposite to those that the framers intended."

So, enough talk about making laws better. It's past time that we focus singlemindedly on repealing laws. □

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THE FREEMAN
IDEAS ON LIBERTY

On Keynes as a Practical Economist

by Julian L. Simon

John Maynard Keynes's contemporaries thought that he was the cleverest mortal of the century (putting aside such immortals of physical science as Einstein). Bertrand Russell said of Keynes's intellect that it was "the sharpest and clearest that I have ever known. When I argued with him, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool."[1] Keynes was impressed by his own cleverness, too. In a letter to a friend who named his son "Keynes Don von Eisner," Keynes wrote:

> He must undertake that he will not only always pronounce the name rightly himself, but will never allow the slightest mispronunciation on the part of others. Tell him firmly that it rhymes with "brains" and that there is no harm in that.

Friedrich Hayek, a Nobel-prize winner and Keynes's greatest opponent of the 1930s—but also a personal friend—said of Keynes much later, however, that "He was so convinced that he was cleverer than all the other people that he thought his instinct told him what ought to be done, and he would invent a theory to convince people to do it."[2]

Let us test Keynes as an economist on the subject of natural resources. In his world-renowned *The Economic Consequences of the Peace*, published just after World War I, Keynes wrote that Europe could not supply itself with food and soon would have nowhere to turn:

> [B]y 1914 the domestic requirements of the United States for wheat were approaching their production, and the date was evidently near when there would be an exportable surplus only in years of exceptionally favorable harvest. . . .
>
> Europe's claim on the resources of the New World was becoming precarious; the law of diminishing returns was at last reasserting itself, and was making it necessary year by year for Europe to offer a greater quantity of other commodities to obtain the same amount of bread. . . .
>
> If France and Italy are to make good their own deficiencies in coal from the output of Germany, then Northern Europe, Switzerland, and Austria . . . must be starved of their supplies.[3]

Could these assertions of impending scarcity have been more wildly in error? Not likely. Keynes was entirely ignorant of the facts and plain wrong in his dogmatic logic. Millions of plain American farmers had a far better grasp of the agricultural reality in the 1920s than did Keynes. So much for Keynes's wisdom as an economist and a seer into the future.

Obviously one can be both "clever" and destructively wrongheaded. □

Dr. Simon is the author of The State of Humanity *and* The Ultimate Resource.

1. Robert Skidelsky, *John Maynard Keynes: Hopes Betrayed, 1883–1920* (New York: Viking, 1983), p. 124.
2. F.A. Hayek, *Hayek on Hayek—An Autobiographical Dialogue* edited by Stephen Kresge and Leif Wenar (Chicago: University of Chicago Press, 1994), p. 97.
3. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harper and Row, 1971 [1922]), pp. 24, 25, 94.

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THE FREEMAN
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The Courage to Try

by Frank Orlowski

Every so often, a seemingly mundane event occurs in our lives that ends up affecting us in a profound manner. I'm not speaking of a major life change, like a death or serious illness, but of something that could easily be overlooked or quickly forgotten. Allow me to share one such experience.

Late last fall I was preparing an article for a local business journal; it was a typical update on how businesses were preparing for the upcoming Christmas selling season. While interviewing the store manager of one establishment, the manager had to excuse himself to talk with someone waiting at the counter. A young man and woman were there to speak with him about temporary Christmas-time employment. The young man, probably in his early twenties, was a bit nervous, though his look was serious and intent. He was sharply dressed (probably overdressed for the situation), in what was likely his best suit. He handed the manager his application, which, from a quick glance, appeared to be carefully filled out. He stood before the manager, straight and erect, listening attentively, but unsure just how to respond.

The young man was afflicted with Down's Syndrome. The woman with him explained that she was his sister, and had driven him over to return the application. The manager, who seemed a bit awkward with the situation, politely explained the hiring process, and asked the young man if he had any questions. Looking down, he nervously shook his head "no." The manager then thanked him for stopping in, and said he would be making a decision on his extra Christmas help in a few days. The young woman thanked him, and the pair left the store. The manager returned to our interview, which we completed, though my thoughts were no longer on the subject of my visit.

As I watched the young man leave the store, I knew he would never get the job. After all, this was a retail store where good communication skills were vital, and I don't believe the young man spoke once during the entire time he was in the store. Still, I was overwhelmed by the courage that young man exhibited by being there. I don't know if this was his first attempt at finding a job, or his hundredth. Either way, he was determined to put his best effort forward and try for a job most of us would consider trivial. I thought about the time and care he put into dressing just right for that four-minute interview—the effort he must have put into filling out that application, to make it as neat and attractive as possible. As a former retail store manager myself, I knew that the typical applicant wouldn't put forth one-tenth of the effort that he obviously had. Yet it wouldn't be enough.

I wanted to ask the manager if there wasn't something he could find for the young man to do—maybe rotating stock, or helping keep the store neat during the busy Christmas rush. I decided against this; it just

Mr. Orlowski is a writer and small-business owner in New Hampshire.

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wasn't my place to do so. I quickly tried to think of another job opportunity I'd heard of before they drove away. But they had probably scoured the papers for every possibility already. I thought about how getting this job was likely the young man's most important goal, and about the disappointment he would experience when he was rejected. When the news came, his sister would probably put her arm around his shoulders, smile, and say "Come on, let's try again. I'll drive you."

The Clamor for Entitlements

We live in a time in our nation when citizens feel "entitled" to whatever they feel their needs are. When groups shout and stammer about how they "deserve" something from the society as a whole. When huge protests are organized among the "deserving" if government even suggests a slowdown in the amount of money to be redistributed to them. When politicians can garner votes by pitting group against group, and creating class envy. When the government's taking from one American to give to another is considered fair and righteous. If an individual disagrees with this policy, and wishes to keep more of what he produces and earns, he is branded as greedy.

The young man I encountered on that late autumn day wasn't content to play by those rules. Although he, if anyone, was in need of society's assistance, he and his family decided that his best option was to try and help himself by being a productive, working citizen. And even though he probably had been rejected more times than any of us will ever be, he was putting forth his best effort in trying again. I'd like to think that his perseverance will pay off, that goodness will prevail and he will find his dream job. I know that in the real world, however, that may not happen, particularly because of minimum-wage laws and other labor regulations that discourage prospective employers from hiring such workers.

That young man touched my life for a mere five minutes, but I doubt I will ever forget him. Every time I see some group ranting in front of a congressional committee about how they deserve more taxpayer dollars, I'll think of him. Every time I hear some able-bodied person complain on camera about how unfair life is, and how government should come to the rescue, I'll think of him. Every time I get depressed about how tough things are for me, and how I might as well quit trying, I'll think of him. I'll always remember the grace with which he took on this task—a simple task to most of us, but one of Herculean proportions to him.

The concept of personal responsibility has lost its luster in recent years. Yet just when it seems that dodging what is right for what is convenient is the universally accepted premise, a simple, profound example of what is right can surface to rekindle our faith.

I have a new hero now. My heroes have never been celebrities or sports figures or politicians. They are simple, hard-working, honorable people, who, striving against life's obstacles, don't always win, but keep up the struggle. People who after succeeding or failing can look in the mirror and see someone who always tried to do the honorable thing. People who, like this young man, have life's odds stacked heavily against them, and struggle to achieve a goal most people take for granted. Courage and honor are the traits real heroes are made of. And courage, friends, takes many forms; it can be found in the least likely places when we least expect it, but need it most. □

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Wanted: A Line Between Public and Private

Most people think that government should have limits, that government should do *some* things but not *every* thing. Accordingly, most people would argue that even if government could produce better hamburgers than anyone else, it shouldn't get into the restaurant business because that would compete against—and draw valuable resources and attention away from—its more important missions of protecting life and property. Government, most people believe, should spend public money for public purposes and should rarely spend public money for *private* purposes.

Those assumptions, as reasonable and universal as they seem when stated so generally, sometimes break down when the discussion turns to specific projects near and dear to the hearts of special interests. And if the implications of a recent court ruling in a North Carolina case should spread across the country, just about any special, private interest could become a public purpose at everyone else's expense.

The origin of the case rests in subsidies by state and local governments to private businesses. Public officials are increasingly granting them as part of their economic development strategies to keep companies from leaving or to lure companies away from other locations. Angered by this dubious use of tax money, North Carolina lawyer William Maready decided to do something about it. In 1995, he filed suit against the city of Winston-Salem and the county of Forsyth.

Maready argued that subsidies violated the provision of the state's constitution which provides that "[t]he power of taxation shall be exercised in a just and equitable manner, for public purposes only." Subsidies, he reasoned, amount to the taxing of existing, local firms to pay for the relocation or expansion of other, often competing businesses. That, Maready claimed, was use of public resources for an overwhelmingly *private*, not public, purpose. A lower court validated Maready's argument, but the defendants appealed.

On March 8, 1996, the Supreme Court of North Carolina overturned the lower court and handed down a 5-2 decision of sweeping significance. It said, in effect, that government can hand out money to anyone so long as the intent of the recipient is to create new jobs with it. By the Court's reasoning, it doesn't matter if no evidence is presented that the subsidy is really needed or even that it would result in a net benefit to the community. Just the intent of doing good with it is justification enough.

Just how sweeping the majority opinion in the Maready case was becomes clear from this analysis by Andrew Cline of the John Locke Foundation in Raleigh, North Carolina: The Court "ruled that if a policy is aimed at helping the community, that policy

Lawrence W. Reed, economist and author, is president of the Mackinac Center for Public Policy, a free-market research and educational organization headquartered in Midland, Michigan.

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will be considered constitutional whether it actually benefits *or harms* the community!"

In a stinging dissent, Justice Robert Orr lamented the fact that "little remains of the public purpose constitutional restraint on governmental power to spend tax revenues collected from the public. . . . If a potential corporate entity is considering a move to Winston-Salem but will only come if country club memberships are provided for its executives, do we sanction the use of tax revenue to facilitate the move?" According to the Court, that would be perfectly acceptable. In Justice Orr's more thoughtful view, "An activity cannot be for a public purpose unless it is properly the 'business of government,' and it is not a function of government either to engage in private business itself or to aid particular business ventures."

From the history of my state of Michigan comes a lesson that puts a useful perspective on the North Carolina story. Upon achieving statehood in 1837, Michigan jumped into the subsidy business in a big way—offering enticements to private firms to stay or locate here and even "assisting" economic development by starting up state-owned railroads and canals. The legislature approved public handouts for sugar beet producers, silk manufacturers, and sheep raisers, among others, "to increase the home market."

In barely a decade, the state's interventions were widely regarded as colossal, expensive failures—so much so that the state's constitution was rewritten in 1850 to excise state government from virtually all economic development. The relevant passage from the Michigan Constitution of 1850 read, "The State shall not subscribe to *or be interested in* (emphasis mine) the stock of any company, association, or corporation . . . [t]he State shall not be a party to or interested in any work of internal improvement, nor engaged in carrying on such work. . . ." In the absence of subsidies, Michigan—surrounded by lakes and once thought of geographically as "the state on the road to nowhere"—went on to develop world-class industries in lumber, furniture, carriages and, ultimately, automobiles.

The clear line between "public" and "private" that Michigan established in 1850 is not so clear any more. Subsequent changes in the Constitution, the passage of new laws, and the creation of programs for "economic development" have blurred it considerably. While today's Michigan Constitution expressly forbids the State from directly subsidizing private *schools*, the State seems increasingly interested in distributing millions of public dollars to private *businesses*. Those dollars—whether for privately owned sports stadiums or for private firms to move here from other states—are always wrapped in the alluring guise of an ostensibly *public* purpose. Strangely, and with few exceptions, the people who cry the loudest against any subsidies to private schools are silent on the matter of subsidies to private businesses.

The Maready decision tells us where the country as a whole might end up if limits aren't placed on the expenditure of public funds for things like "job creation." We should be asking ourselves and our elected officials this question: *Do we really want to obliterate the line between public and private, so that any seemingly worthwhile purpose can become a rightful claim on the public treasury?* □

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THE FREEMAN
IDEAS ON LIBERTY

The Incredible Regulatory Follies

by Ralph R. Reiland

In a recent *Times-Mirror* poll, 69 percent of Americans said that government "controls too much of our daily lives." Seemingly not satisfied that they have alienated the bulk of the adult population, the central planners and bureaucrats are now going after America's kids.

Raymond Raines, a fifth-grader in a St. Louis public school, was placed in detention for a week after committing a faux pas in the school cafeteria. Raymond's misdeed was bowing his head in prayer and silently saying grace.

School officials, allegedly interested in diversity, invoked shunning to maintain uniformity. Raymond was told he'd have to eat by himself in a separate room until he conformed. No one can explain to this 11-year-old why Congress spends $210,000 every year for chaplains to begin each day with a prayer and yet he can't quietly bow his head over a cheeseburger.

In Boston, a kid opening a lemonade stand must get permission from five different government agencies and pay $335 in fees and licenses. The city also requires the budding entrepreneur to comply with dozens of complex food and building ordinances and carry $500,000 in liability insurance. "Massachusetts," wrote Ted Levinson in *The Freeman*, "frowns upon the ramshackle wooden lemonade stands set upon the lawn that Norman Rockwell would paint."

A Boy Scout from Chicago, Bobby Graham, got a taste of government red tape when he got separated from his troop and was lost in New Mexico's Santa Fe National Forest. After two days and nights of searching, police helicopters finally spotted him and requested authorization from the Forest Service to land and bring him back. Citing a regulation that "mechanized vehicles" are prohibited in wilderness areas, the Forest Service denied the rescue helicopter permission to land. The Forest Service also forbids the operation of a "musical instrument near a campfire or adjacent to a body of water."

Robyn Lerman, a 6-year-old in Highland Park, Illinois, discovered that she couldn't put her pulled tooth under her pillow without violating Occupational Safety and Health Administration regulations. OSHA, explained her dentist, requires human tissue, including teeth, to be immediately placed in a closed container for proper disposal. The Tooth Fairy became illegal the same month that the Center for Science in the Public Interest declared movie popcorn to be lethal.

For disadvantaged kids in California, the listing of fairy shrimp as an endangered species by the U.S. Fish and Wildlife Service led to eviction from Pastor Bob Raup's ranch for troubled children and a quick trip

Mr. Reiland is associate professor of economics at Robert Morris College in Pittsburgh, Pennsylvania.

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back to inner-city killing fields. Raup, a chaplain with the Sacramento Sheriff's Office, created a getaway ranch where at-risk kids could ride horses and get counseling. Even though the minuscule fairy shrimp can be found thriving by the hundreds of thousands in railroad ditches and water-filled abandoned tires, the central planners rank endangered kids a step below endangered crustaceans.

Children may not be allowed to sell lemonade, pray, be rescued, take their baby teeth home, or play the guitar next to a lake, but government regulators are working to insure that they'll be able to eat all the clean dirt they can handle. Taxpayers in Columbia, Mississippi, were forced to pay $20 million to haul dirt away from an old lumber mill site so it would be clean enough for a child to safely eat a teaspoon of dirt every month for 70 years.

Curiouser and Curiouser

Unfortunately, these kids will find out soon enough that the rules don't get any less bizarre when they get older. Under a new no-ogling policy in Minneapolis, it's a firing offense for a city construction worker to stare too long at a passing female.

A city agency in Los Angeles closed the Odd Ball Cabaret, a strip joint, under the Americans with Disabilities Act because a shower stall on stage wasn't accessible to strippers in wheelchairs. It didn't matter that no handicapped strippers had applied for work, just as no blind drivers had complained about a Kansas City bank before regulators ordered the installation of a $5,000 Braille keypad on an automatic teller machine in the drive-through lane.

After the Equal Employment Opportunity Commission declared obesity to be a protected job disability, a 410-pound applicant for the job of subway train conductor dragged the New York City Transit Authority into court. Unhired and simply too large to fit in the small cab of the train, the applicant claimed the Authority didn't make "reasonable accommodations."

Nothing is too small to become a federal case. Under OSHA rules, the smoking and gum chewing by America's roofers are matters of national labor policy, while a Florida business was cited for failing to place a warning label on a bottle of Joy dishwashing liquid. For a shoeshine stand in the courthouse lobby, Bergen County in New Jersey issued a full 18 pages of regulations. The smock, only burgundy or dark brown, must be knee length and wrap around, with pockets.

"The Lord's Prayer is 66 words," says policy analyst Thomas D. Hopkins, "while government regulations on the sale of cabbages total 26,911 words." Someone has too much time on his hands. In California, the Department of Fair Employment and Housing ordered newspaper editors to remove "family room" and "master bedroom" from real estate ads. Even "nice neighborhood" was ruled to be insensitive.

The Best Laid Schemes . . .

It was mice and the federal government in California who thwarted John Thorpe's plans to develop the upland portion of his property. Regulators, after discovering salt marsh harvest mice on the lower levels of Thorpe's land, envisioned an apocalypse: global warming might melt the polar ice caps, the Pacific Ocean would rise, and the mice would be forced up Thorpe's hill. No new building was permitted. The fate of California's jobless contractors took a back seat to rodents and science fiction.

All these regulatory follies might be funny if it weren't for the costs. By most estimates, federal regulations impose costs on American workers and consumers of $500 billion per year, or $5,000 per family. In terms of lost jobs, the U.S. economy operates with an estimated 10 million fewer jobs because of federal regulations, according to studies by economist William Laffer. In the Northwest, over 30,000 logging jobs were destroyed when federal planners mistakenly theorized that spotted owls could only live in old trees.

Last year, the average American had to

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work full-time until July 10 to pay his or her share of the combined costs of taxes, government spending, and federal mandates and regulations, according to a recent Americans for Tax Reform study.

I wonder what our Founding Fathers would say about mice having the right to the top of anyone's property, the government timing of ogling, and kids being shunned into conformity by school bureaucrats or being left in the woods so no bugs are disturbed in a rescue.

"A wise and frugal government," said Thomas Jefferson, "which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuit of industry and improvement, and shall not take from the mouth of labor the bread it has earned." Sounds like someone who would take a risk on homemade lemonade. □

Ancient Lessons

by James A. Maccaro

The history of ancient Rome repeatedly demonstrates the connection between low taxes and prosperity. It also shows the connection between confiscatory taxes and political and social unrest.

As the Roman empire expanded, so did the emperors' appetites for revenue. Taxes reached the point that most people could not meet their tax burdens out of their incomes and had to liquidate capital assets. They consequently became less productive, which reduced their income and caused them to fall further and further behind.[1]

Government confiscation of property to pay taxes was common. In Egypt during the reign of Nero, some farmers found the burden of taxation so great that they abandoned their farms.[2] Entire villages were depopulated. Abandonment and confiscation became so widespread that one of the most frequently asked questions of temple oracles about a perspective groom was whether he would eventually run away or have the State take all of his property. The middle class was systematically destroyed as commerce ground to a halt and small landowners gave up their property to work under the protection of the politically connected owners of great estates.[3]

To relieve the economic pressures, successive emperors debased the currency, which made matters worse because it caused inflation.[4] Diocletian, emperor from 284 to 305 A.D., attempted to counter the economic instability caused by his policies of high taxation by the unprecedented act of setting fixed prices for all goods and wages. Wheat, barley, rye, pheasant, and even sparrows and mice were among the goods under price control. The penalty for producers who disobeyed the price edict was death. The resulting damage to the economy was disastrous. In the words of Lactantius, a historian who lived during the era of Diocletian, "nothing appeared on the market because of fear, and prices soared much higher."[5]

Diocletian's ruthless policies were continued and even expanded upon by his

Mr. Maccaro practices law on Long Island, New York.

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successor, Constantine. According to Libanius of Antioch, a writer contemporary to the time, "those for whom the work of their hands scarcely furnishes a livelihood are crushed beneath the burden." He continued:

> The lowest cobbler cannot escape from it. I have seen some who, raising their hands to heaven . . . swore that they would pay nothing more. But their protests did not abate the greed of their cruel oppressors, who pursued them with their threatening shouts and seemed quite ready to devour them.
>
> It is the time when slavery is multiplied, when fathers barter away the liberty of their children, not in order to enrich themselves with the price of the sale, but in order to hand it over to their prosecutors.[6]

To extract money, the authorities routinely tortured and beat taxpayers. Constantine eventually addressed this abuse by issuing an edict banning the use of the rack and scourges to "persuade" reluctant taxpayers to provide additional money; he also reduced some taxes. However, the tax system continued to routinely employ such punishments as beatings and imprisonment, and rates were much higher than most people could afford.

Historians agree that these foolish fiscal policies greatly contributed to the collapse of the Roman empire. Indeed, some historians consider it to be the primary factor for the fall of Rome. In the words of Michael Grant, "it was a crushing tax system, which ultimately defeated its own purpose, because it destroyed the very people (farmers and merchants) who had to pay the taxes."[7] □

1. Arthur E.R. Boak and William G. Sinnigen, *A History of Rome to A.D. 565* (New York: Macmillian, 1965), p. 371.
2. *Ibid.*, p. 373.
3. Michael Grant, *Constantine the Great* (New York: Charles Scribner's Sons, 1994), p. 90.
4. Boak and Sinnigen, p. 372.
5. Moses Hadas, *Imperial Rome* (New York: Time-Life Books, 1965), p. 145.
6. Grant, pp. 11, 88.
7. Grant, p. 93.

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THE FREEMAN
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Thielicke on the Modern Welfare State

by Daniel F. Walker

Helmut Thielicke was a leading Christian theologian of the post-World War II era. Early in his career, Thielicke was removed from his teaching position at the University of Heidelberg because of his criticism of the Nazi regime. Late in the war, he was allowed to preach and informally teach in Stuttgart. Thielicke's lectures and sermons were privately (and illegally) published, bringing a Christian message to thousands of people.

After the war, Thielicke held high positions at the universities of Tübingen and Hamburg, and several published collections of his sermons brought him acclaim in the English-speaking world. What established him as a leading theologian, however, were two multi-volume works: *The Evangelical Faith* and *Theological Ethics*.

In *Theological Ethics*, Thielicke addressed the dangers of governmental paternalism. While Thielicke did accept a role for government in providing a "safety net" for its citizens, he expressed deep alarm at the reach and effects of the modern welfare state.

Thielicke defined the "rationalization" of the welfare state's process as "organizing the effort in such a way that a maximum of production is achieved with a minimum of expenditure," thus infusing impersonalization into the welfare process and depersonalizing the participants. Direct, personal caring would be reduced to a minimum, "and even then the final stage will be a welfare office desk or the home mailbox."[1] Forms, computers, and adding machines—not individual love of one's neighbor—would drive the process.

The greater the reliance of the welfare-state machinery upon the depersonalization of givers and recipients, the greater the effects. Unlike many theologians, who improperly interpret the New Testament as a manifesto for "compassion" by force of government, Thielicke recognized the undesirable consequences, economic and personal, of the modern welfare state.

Individual Initiative and the Burgeoning Welfare State

External consequences of the growing welfare state would be an increasing tax burden, decreased investment in the means of production, and a strain on credit; a further danger was that of welfare "benefits" threatening "to become the equivalent of a normal wage" or, even where not, "a temptation . . . for people to quit their job, justify their action on other grounds, and make up the loss in income by doing part-time work on the side. All this leads to chaotic tendencies in the labor market."

Internal, personal consequences of the

Mr. Walker is an attorney in private practice in Tallahassee, Florida.

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rationalized welfare state also were serious. As the modern welfare state embraces more "duties," it "not only reduces individual initiative but also kindles suspicion of the welfare work of other groups" and "demands that all activities which impinge upon its monopoly must first receive official authorization." While American governments do not have a monopoly on providing welfare services, Thielicke's concern is valid; think of charitable organizations having to obtain 501(c)(3) recognition from the Internal Revenue Service before donors' contributions can be used to reduce individual tax liabilities assessed by the government.

State Welfare versus Genuine Caring

Of deep concern to Thielicke was the inner consequence where "welfare becomes the object of a 'claim': In time of need, when I cannot care for myself, I claim to have a right to be cared for; the state is obliged to assist me whether or not I act or am capable of acting to help myself." As Thielicke said, "welfare is thus transferred from the ethical to the legal plane."

Anticipating more contemporary arguments, Thielicke noted that supporters of welfare "rights" would emphasize the alleged "degrading" nature of people having to rely upon private charity, of being a mere object of benefactors' good will—thus violating the recipients' "dignity."

Thielicke found that argument "meretricious," making "a false distinction between welfare as a legal act regulated by the state and welfare as the function of private, improvising love." Genuine Christian love of one's neighbor does not degrade the recipient of aid. Genuine caring for another person is not mechanical, nor is it a "subject-object relation between giver and recipient," but it is a partnership. Within the Christian context, "the giver knows that he is one who, in relation to God, receives without merit, and who must therefore act towards his neighbor as God has acted toward him." This is a dignity far different than that contemplated by supporters of the modern welfare state.

For Thielicke, a society in which the government "provides in principle for every kind of disability and the helplessness of old age" would alter "fatefully the relationship between the generations." Families with sufficient financial strength should care for family members who need help.

Look at America now; older middle-income Americans are encouraged to divest themselves of their assets in order to qualify for Medicaid so that taxpayers at large must subsidize the costs of warehousing the artificially impoverished in nursing homes—in the name of "independent living" and "not being a burden to the children." Thielicke said that such a welfare apparatus for caring "would make parenthood a temporary function: When the function is fulfilled, parents simply step down and enter another sphere of existence." So it seems today in the United States.

Again anticipating contemporary battles, Thielicke asserted that opportunities should be present for people to plan and "pay in advance for later pensions and other benefits (medical benefits, etc.)." Aside from the economic advantages to be gained by Individual Retirement Accounts, medical savings accounts, and other similar measures, the greatest benefit from such planning opportunities is that citizens can be *active* participants in the continuity of their lives rather than being mere passive recipients of whatever favors are doled out by a particular government. Genuine welfare depends upon personal involvement, but "the radical welfare state aims at state pensions for all citizens without distinction, irrespective of need or achievement. . . . It has become instead the welfare robot, devoid of any personal features at all." Does any of this ring true, in light of talk about welfare state recipients being given ATM-like cards to "access" their government benefits?

Ultimately, Thielicke characterized the State as an "emergency order" to which "we should commit to the state, not everything we can, but only what we must. . . . [T]he state should give up as many tasks as

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possible and commit them to other agencies."

Thielicke was not fooled by those who would equate "compassion" with a pervasive welfare state and greater taxes. Those who "farm out to the machinery of the state all care of the needy" are "refusing to be human toward a fellow human being." Delegating a personal moral responsibility to a "robot" shows a *lack* of involvement in others' lives. The modern welfare state cannot be a substitute for proper love of one's neighbor. Even if the welfare state "worked," was efficient, and delivered to or on behalf of recipients most of each dollar allocated for welfare—it still would do damage.

How? Why?

According to Thielicke, "The responsibility of love cannot be transferred. Love that is hidden away in some mechanical apparatus 'gains me nothing.' And when I am without love I myself 'am nothing.' (I Cor. 13:2). The perfection of the machinery can actually deliver up the person to nothingness."

Those who would invoke Christian compassion in defense of the modern welfare state would be wise to consider the warnings of Helmut Thielicke. He looked beyond superficial sentiment and good intentions associated with government-driven caring, and found tremendous dangers awaiting the society that diminishes the personal dimension of caring for one's neighbor in exchange for a mechanical state of "social justice." □

1. Helmut Thielicke, *Theological Ethics* (Grand Rapids, Mich.: Eerdmans, 1979), vol. II, p. 301. Subsequent quotations are from the same volume, pp. 302–317.

The One-Minute Shed

by Donald G. Smith

A friend of mine once spent a weekend building a cabana for the guests who would be using his pool. A neighbor must have objected because a building inspector arrived early on Monday and told him that it had to come down—no building permit.

My friend, a quick-witted man, tried an impromptu defensive maneuver, asking what could be built without a permit. The inspector rattled off a list of outbuilding structures that were allowable and when he came to "tool shed," the light went on. "Just what constitutes a tool shed?" The answer was simple: "Tools."

So, the two men solved the problem that very moment. My friend found a hammer, hung it inside the door, and created a tool shed in one minute. The inspector approved and left with no further objections. The hammer had made it legal.

To me the story hinges not so much on the absurdity of the regulation but on the attitude of the inspector, who saw neither humor nor disgust in the event. It was a ho-hum, case-closed matter and he went off to his next assignment with another problem out of the way.

This has been my objection to the bureaucratic mind since I was old enough to know that there was such a thing. Why don't these people object to an obviously ridiculous

Mr. Smith is a freelance writer living in Santa Maria, California.

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regulation? To them a rule is a rule; not good, not bad, not in-between. If it makes no sense, no one questions it.

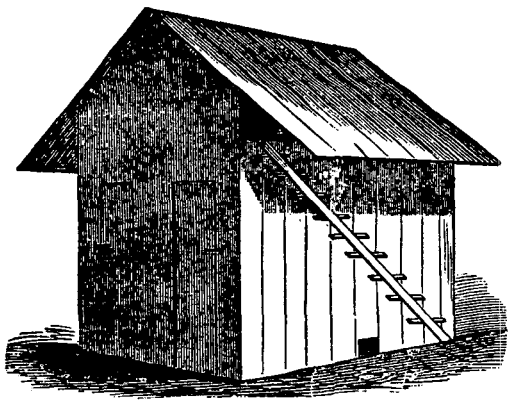
In my long and rather unrewarding career in private industry, I found that employees were sometimes required to uphold regulations that were fatuous at best. But we had enough personal integrity to grumble, disassociate ourselves from unworkable schemes, and explain that we were enforcing such nonsense only under duress. This is common in private industry, unheard of in government.

Throwing logic at a bureaucratic minion is like spitting into the wind. It goes nowhere. At the very core of the civil-service soul is a complete aversion to rocking the boat. The primary function is to keep the lid on and get through another day. It is a form of self-preservation that is based entirely upon inaction.

I have recently been going through a letter file of a transaction that I had with a county official a few years ago. It was a matter that seemed to be of some urgency and would have cost nothing; it would, in fact, have represented a considerable cost saving. In every letter from him there was an expressed agreement with my plan, along with an attempt to stall and delay. "I will talk with (name deleted) and get back to you." "Let's have a meeting next week." "I want to go over the (XYZ) report first." Then there is the person who can contribute some "worthwhile inputs" but unfortunately is away at the moment, usually in Mongolia or Zanzibar. Naturally, everything will be held up until he gets back. There is never any suggestion of doing anything *now*. The idea is always to push everything back and hope that the whole thing will eventually go away.

As one reared in the old Protestant-ethic tradition, I have always been on the side of accomplishment, even at the expense of caution. If it needs to be done, let's do it. The bureaucratic mindset is entirely opposed to this line of thinking. The first thing that a bureaucrat does in a new situation is to look for a way to delay something. His tools are committees, slide shows, interminable meetings, and those beloved regulations that can be invoked at any time in the game. If General Eisenhower had been confronted with an environmental impact report, he would probably have been forced to delay the D-Day landing for a year, or maybe forget the whole thing.

The public and private worlds are in constant conflict because of two mental processes that were designed to abrade each other. One fights to accomplish something and the other fights just as hard to prevent it. We survive as a species only because we can hang a hammer in a cabana and call it a tool shed. □



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THE FREEMAN
IDEAS ON LIBERTY

Big Labor and Big Government

by Karen Kerrigan

Big labor is trying to make itself relevant again by attempting to rebuild its declining membership base, and, more importantly, by striving to increase the role of government in the American economy. Under the leadership of AFL-CIO chief John Sweeney, the union movement has revived its militant organizing activities of the 1930s, updated with a 1990s Madison Avenue message campaign. Indeed, labor is spending unprecedented resources (officially, $35 million) on political campaigns targeted to the congressional districts of incumbents who threaten its agenda.

Inasmuch as national and international competitive market conditions have made labor unions increasingly irrelevant in the private marketplace, the only way unionists can achieve their goals is through the coercive power of government. The union movement's plan is to place government at the center of the American economy through regulations and mandates which it gets to design. To do this it needs complicit politicians who believe that big government should aggressively and unapologetically micromanage American business.

To that end, big labor has embarked on a militant course "to end social and worker injustice." With renewed enthusiasm, labor is pushing the minimum-wage hike, "corporate responsibility," and the expansion of legislative relics like the Davis-Bacon Act. A mere cutback in the growth of government spending—or even small steps to reform the regulatory overload in programs like the Occupational Safety and Health Act—are described by labor as an attempt to unleash havoc on American workers.

In a speech this spring before labor leaders in Washington, D.C., Mr. Sweeney portrayed a world in which "greedy bosses" take advantage of all workers, especially "women and minorities and low-wage workers." According to Mr. Sweeney, smaller government translates into "a world with no environment safeguards, no public health protections for families, and no health and safety protections for workers at their jobs." In this same world described by Mr. Sweeney, Americans will be "trapped permanently . . . in a society" controlled by big business and the rich. Of course, programs for the poor and elderly are wiped out in order to pay for massive tax cuts for the wealthy.

Union leaders are putting a lot of capital in the idea that if organized labor can be seen as an institution that cares about all workers—not just its own members—that the movement will be viewed as necessary and relevant again. To accomplish this feat, the centerpiece of their crusade to attract more workers into labors' ranks is the campaign to increase the minimum wage.

Ms. Kerrigan is president of the Small Business Survival Foundation in Washington, D.C.

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Labor leaders have termed this endeavor their "living wage" campaign, although it is well documented that very few of those workers making minimum wage depend on it as a single source of income for raising families. It also remains very hard for workers to start making a "living" when, as a low-skilled worker, you have been priced out of the labor market because the unions have demanded an increase in the legal wage floor—a consequence most economists agree occurs with each minimum-wage increase.

The rhetoric of labor leaders also would have us believe that minimum-wage earners are forever trapped at this wage scale. This is simply untrue. Census Bureau data reveals that minimum-wage earners, on average, will make $6.09 per hour within a year.

Comparing Apples and Oranges

Most disingenuous is the labor movement's assertion that the minimum wage has dropped to a "forty-year low"—a declaration that goes unchallenged by wage hike opponents, yet has become the key rallying cry behind labor leaders' efforts to enact the increase. Forty years ago, the minimum wage mostly applied to skilled jobs like manufacturing. Jobs in restaurants and the retail industry were exempt. Today, the wage scales of skilled jobs in manufacturing and other industries are highly competitive. Simply put, wage-hike supporters are comparing apples and oranges when measuring the wages of skilled workers forty years ago, versus those of low-skilled workers today.

Though characterized by labor as a plot by right-wing zealots to keep corporate profits soaring at the expense of hard-working Americans, minimum-wage hikes draw fire from a wide spectrum of economists and activists. The Democratic Leadership Council (DLC), an organization once headed by President Clinton, asserts in a recent statement that "raising the minimum wage is not the answer" to helping people out of poverty.

While affirming that a wage hike will cost jobs for low-skilled workers, the DLC's most damning pronouncement is that the cost of the increase "would be borne disproportionately by lower income families." That cost would be borne by poor families in the form of higher prices amounting to what the DLC calls a "regressive transfer," which makes the poor "a little more worse off in order to improve the lives, at least for a time, of a group of people which is predominately non-poor."

For labor leaders to proclaim their concern for all workers, while at the same time pushing for minimum-wage hikes at all levels of government, is a twisted exercise in logic. Nonetheless, the minimum-wage issue is shrewdly being used by labor as a means to an end—to reconnect with the workforce in order to be seen as relevant again, and to force the ouster of politicians who challenge its cause.

The Move Toward "Corporate Responsibility"

The labor movement would like to see politicians hoodwink American businesses into supporting its cause through inducements provided by the federal government. This failed European model, which mistakenly unites government and business as close working partners, has sadly resurfaced in the United States.

Called industrial policy in some parts of the world, it is better known to labor leaders and their advocates in academia and Congress as "corporate responsibility." Interestingly, the corporate responsibility model recognizes the benefits of tax cuts and regulatory relief, but only for those businesses that meet certain standards established by the U.S. government.

For example, a Senate supporter of labor has proposed a program of corporate responsibility whereby participating businesses—or A-Corps as they are called—would receive special tax and regulatory treatment in exchange for abiding by several provisions: a percentage of corporate income (determined by the government) must be allocated for worker training; the business

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must provide a government-approved health-care plan for all employees; the CEO and other executives must agree to have their salaries capped; and the business must participate in a collectively bargained (union) pension plan utilizing an employee trustee.

Labor leaders are touting these types of proposals as ways to help the "anxious middle class" deal with the hardships of corporate downsizing and government cutbacks. Unfortunately, these plans only create a new level of bureaucracy, which dispenses tax favors to companies deemed socially worthy by the federal government.

The most glaring shortcomings of the corporate responsibility model is a total lack of understanding as to the trends shaping the twenty-first century economy. Unmistakably, key attributes of this economy will include diversity, mobility, and entrepreneurship. In other words, workers will continue to want different things at different stages in their lives, and they will change careers with greater frequency. In addition, experienced workers who become downsized are, in larger numbers, opting for self-employment and entrepreneurship. It is doubtful whether these smaller enterprises—responsible for the bulk of U.S. job creation—will have the extra cash to allocate toward "corporate responsibility."

According to a March 1996 report by the U.S. Senate Joint Economic Committee, corporate responsibility proposals "explicitly contradict" twenty-first century trends, and "would make workers more dependent on their current employers at a time when public policy should be encouraging individual responsibility through upward mobility and portable benefits."

Labor unions indeed fear policies that would make workers less dependent upon institutions (such as labor unions). That is why they continue to advocate bigger government and the expansion of the programs, agencies, and laws that govern the American workplace. Working hand in hand with the politicians and bureaucrats who oversee such programs, labor unions exert a powerful influence over the laws which make them relevant.

Take away such laws, and labor leaders find themselves stripped of power. Suddenly, their reason for existence comes under scrutiny. While big labor may succeed in its attempts to slow down the movement toward limited government, it is highly unlikely that it will overcome the power of the marketplace—a force moving individuals away from dependence on unions and governments and more toward independence and economic freedom. □

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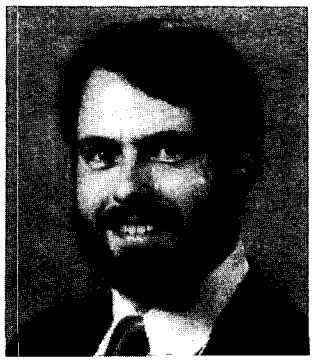

Minimum Wage Plus

What could be more appropriate in Washington than a bipartisan congressional majority pushing to increase the minimum wage? Legislators always move with alacrity when they are giving away other people's money.

But while the public might be tempted to celebrate an increase as a victory for working people, it will help only those who remain employed. Decades of research demonstrate that fixing wages destroys jobs; the only question is how many. Nearly two dozen studies during the 1970s and 1980s reached a rough consensus that a ten percent rise in the minimum cuts teen employment by one to three percent. The Minimum Wage Study Commission, created in 1977 by a Democratic Congress and staffed by President Jimmy Carter, concluded that a ten percent increase in the minimum reduces employment opportunities by between .5 and 2.5 percent. Indeed, the nonpartisan General Accounting Office stated that it "found virtually total agreement that employment is lower than it would have been if no minimum wage existed." In 1988 the Congressional Budget Office warned, in a report which some opponents attempted to suppress, that a proposed hike to $5.05 would destroy between 250,000 and 500,000 jobs.

Moreover, the Progressive Policy Institute issued its first policy paper on the minimum wage, concluding that "certainly, employers will hire fewer minimum-wage workers when they have to pay more for them." The Employment Policies Institute (EPI) has published a dozen or more studies documenting the ways in which a minimum-wage hike would hinder job creation, reduce the number of hours worked by those who stay employed, and encourage companies to substitute better-educated, middle-class employees for disadvantaged, lower-skilled workers seeking to escape poverty. Even the few economists who favor the proposed increase don't dispute that it will throw some people out of work. They just say the number will be small.

This should come as no surprise. Unfortunately, however good the politicians' intentions, government fiat cannot erase economic reality. People who earn little do so for reasons other than employer greed: lack of education, skills, and experience. Indeed, many minimum-wage workers are young people just entering the labor force.

Unfortunately, setting a legal minimum does not address the reasons people receive low salaries. It simply tells employers not to hire anyone who can't produce that amount. The result is higher unemployment, concentrated among the most disadvantaged, particularly urban teens. No one who understands economics disputes this central point: arbitrarily raising the minimum above a worker's productivity level means the person won't be hired.

Doug Bandow is a senior fellow at the Cato Institute and a nationally syndicated columnist. He is the author and editor of several books, including The Politics of Envy: Statism as Theology (Transaction).

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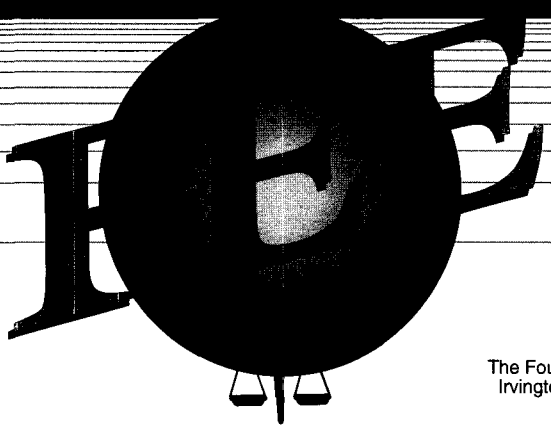

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August 1996

Is Inflation Dead?

Mainstream economists are telling us that "there's little or no danger of inflation." The rates of inflation have come down significantly in recent years and can be expected to remain benign in the future. In the developed countries, average price inflation in 1995 was about 2.5 percent. In most less developed countries, it moderated to 8 percent. In Latin America, the Middle East, and Eastern Europe, it continued at above-average rates, some even at triple-digit rates.

When compared with the 1970s and 80s the rates of inflation in **developed** countries, no matter how you may define it, have indeed come down. The monetary authorities that shape national monetary policies may have learned from their earlier blunders or may have been replaced by more prudent managers. The governors of the Federal Reserve System who issue and manage the U.S. dollar and preside over the international dollar standard may have finally learned by experience that inflation has undesirable economic, social, and political consequences.

Some credit for the American learning process must be given to the governors of two other central banks: the German Bundesbank and the Bank of Japan. They consistently inflated their currencies at lesser rates and kept them harder than the U.S. dollar, which forced the Federal Reserve to follow suit. Refusal to follow could trigger an international flight from the dollar, which would have calamitous consequences the world over. The dollar crises of 1978 and 1979 were early warning signals of things to come if the Fed did not mend its easy-money ways and keep in better step with its hard-money competitors.

Despite the visible improvements in central bank behavior in recent years, it is certainly premature to say inflation is down for the count. **The monetary system that bred past inflations remains unchanged; the monetary thought that guided the monetary authorities is still popular, especially with government officials.** It grants legislators and regulators the monopolistic right to manage the people's money and manipulate it to suit their political ends.

At the present, the central banks of the developed countries are aggressively expanding their credits because of the fear of recession. With unemployment running high, the Bundesbank recently cut its discount rate to a record low of 2.5 percent, hoping to revive the dragging economy. This "bastion" of anti-inflationary credibility may be changing its course to go the

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way of all full-employment programs. The Bank of Japan, which is an important creditor to the U.S. government, last year lowered its official discount rate to a record low—to one half of one percent. When compared with these "stalwarts" of hard money, the Federal Reserve System, which presently is charging 5 percent for its credits, looks like a miser and tightwad. Actually, it has no choice but to keep its rates high because the United States is a low-saving, high-consumption, heavily indebted country with a chronic current-account deficit.

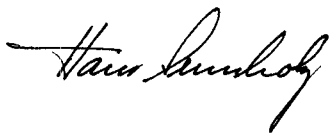
In **developing** countries, inflation is still an every-day experience. In Asia the rate remains relatively high at some 12 percent. Turkey is the worst, with an inflation rate over 75 percent. In the economies of the former Soviet Union the average rate is estimated at 150 percent, with that of Belarus at 700 percent, Ukraine at 300 percent, Azerbaijan at 460 percent, and Tajikistan at 390 percent. These rates are well down from an average rate of more than 1,500 percent in 1994.

Everywhere central banks are creating new credits and printing new money. The stock of money is growing faster than at any time in the 1990s. Moreover, the United States is experiencing an explosive growth of securitized debt, what most economists call "rising money velocity." Yet, the price inflation of goods and services remains rather moderate. The rampant growth of leveraged speculation and corporate acquisitions point at a *different* kind of inflation: that of existing capital assets. Instead of soaring prices of goods and services, we see the effects of easy money and credit in the financial markets. Inflation is not dead but very much alive. It has moved from Main Street to Wall Street.

Most developed countries are mired in economic stagnation or even recession. Japan continues to suffer the readjustment pains from its credit expansion binge of the 1980s. The European countries are chafing under crushing loads of welfarism and soaring rates of unemployment. The European monetary ease, led by the Bundesbank, is failing to stimulate economic production but instead is fueling a great financial-asset inflation; European stock prices are hitting one record after the other. The United States, which is the only country not mired in stagnation, is leading the way in the asset inflation.

Our age of inflation has deep roots in doctrines and theories that disparage economic freedom and deny the freedom of contract. Faulty monetary thought paved the way for the age of monetary destruction by allowing governments the world over to create monopolistic banks of issue and make their money "legal tender," which everyone is forced to accept no matter how depreciated it may be. To refuse to accept it is to forfeit income and wealth. The monopolistic money system then was made to serve the welfare state with its unquenchable thirst for deficit spending. It was in 1971, finally, that the U.S. government opened the inflation flood gates by removing the last deterrent, the gold reserve requirement. Building on political force and managerial discretion, it created the paper dollar standard.

Depend on it, the legislators and regulators who gave us such a system will bring us more inflation in years to come.



Hans F. Sennholz

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Private Means, Public Ends:

Voluntarism vs. Coercion

edited by J. Wilson Mixon, Jr.

"Private interactions create a virtual flowerfield. Not every flower is perfect, but the overall effect is breathtaking. Government meddling often entails poisoning the ground, then lamenting its inability to produce, and finally setting out a few very expensive potted plants."

—J. Wilson Mixon, Jr., Dana Professor of Economics, Berry College

Even though many people increasingly have begun to question the efficacy of the welfare state, most people still contend that the government must be involved in the provision of some degree of health care, welfare, and education for the poor and indigent. Furthermore, there seems to be a universal consensus—even among advocates of limited government—that the basic functions of government should include maintaining a transportation infrastructure, the issuing of currency, and policing. **Private Means, Public Ends** daringly challenges these perceived wisdoms by pointing to instances of the free market fulfilling these functions. The book seeks to illustrate that there are, inevitably, many intrinsic problems with governmental attempts to plan and implement these functions. Moreover, governments operate on the leverage of coercion—whether that be in the form of laws or taxation. These essays suggest that the private alternatives not only tend to work better at achieving the desired end, but they also serve to reintroduce the much diminished principle upon which civil society is founded: namely voluntary cooperation between free men.

The essays in *Private Means, Public Ends* cover a diverse range of subjects, including education, charity, telecommunications, private banking, the arts, transportation, and private roads.

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For years advocates of the minimum wage—labor unions, whose skilled members benefit from the wage floor; liberal politicians seeking to buy votes from poorer workers; and left-wing ideologues, who prefer social engineering to improving people's lives—simply ignored the facts. Confident that anyone who lost his job would blame something else, perhaps capitalism or Reaganomics, Congress steadily raised the minimum wage even as teen unemployment soared.

But now, after disdaining academic inquiry their entire careers, minimum-wage advocates have suddenly become interested in the facts. They finally found a report that fit their political preconceptions.

Alas, the analysis of a 1992 New Jersey minimum-wage hike, by Princeton's David Card and Alan Krueger (the latter later hired by the Department of Labor), was, according to a detailed review by EPI, "based on ludicrously flawed data." EPI Executive Director Richard Berman explains that his organization studied the actual number of employees and found that "the payroll records do not match the Card-Krueger data. Only a handful come anywhere close." Michigan State University economist David Neumark and William Wascher of the Federal Reserve Board figure the actual impact to have been a 2.7 percent decrease in employment for every ten percent minimum-wage hike.

Indeed, minimum-wage advocates should avail themselves of EPI's extensive body of work, conducted by a host of outside economists. For instance, in 1993 Bruce Fallick, from UCLA, and Janet Currie of MIT, concluded that teenagers whose earnings were raised by increasing the minimum were more likely to lose their jobs. The larger the gap, "the greater the probability that there will be a loss of employment."

In the same year, Lowell Taylor of Carnegie Mellon reported on California's most recent minimum-wage hike. His conclusion: every one percent hike cut retail employment by .8 to .9 percent. Also released in 1993 was a review of recent studies by David Neumark. He reported that "the best estimate of the range of effects is that a 10 percent increase in the minimum wage reduces employment of teenagers by 1 to 2 percent, with the effect generally closer to 2 percent."

A 1994 study by two University of South Carolina economists, John Addison and McKinley Blackburn, found that raising the minimum wage did nothing to lower poverty rates. In another EPI paper in early 1995, David MacPherson from Florida State University and William Even of Miami University showed that for every dollar in minimum-wage increases going to single parents, about $4.50 goes to single individuals and $6.80 to children and others living in their parents' homes.

Another 1995 study by David Neumark found that minimum-wage increases lure additional higher skilled teens into the workforce, supplanting disadvantaged kids. Those displaced, he warns, "are more likely to end [up] neither enrolled nor employed," a prescription for social disaster. Also last year, Kevin Lang of Boston University discovered a similar phenomenon when studying eating and drinking establishments. This is the real research record.

There's also the little matter of principle—of fundamental fairness to employers. Helping those in need should be a concern of every individual in society, not just firms that hire the most unskilled labor. Yet raising the minimum wage penalizes the very companies that are doing the most to assist the disadvantaged by providing them with jobs.

However, if Congress really believes that it can repeal economic reality, it should consider the proposal by John McClaughry, head of Vermont's Ethan Allen Institute. Let workers sue the federal government if they lose their job, or fail to find a job, because of the increase. And take any awards out of the Labor Department's budget and the office accounts of legislators who voted to raise the minimum.

Of course, the right method to raise wages is to improve education and lower taxes. Today's educational monopoly is warehous-

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ing rather than teaching inner-city kids; why not give their parents a choice in schools, increasing the likelihood that future workers will be prepared for higher-wage jobs? If federal officials really care about the earning power of minimum-wage workers, why not ease the payroll tax burden, which falls most heavily on those who earn the least? Unfortunately, they won't do either one, because doing so would reduce their power.

Hiking the minimum wage was neither fair nor efficient. But then, so what else is new? Yet again, politicians are crying crocodile tears over the plight of workers, blaming the private sector for the consequences of their own failed policies. □

THE FREEMAN
IDEAS ON LIBERTY

Defining Justice

by Mark Da Vee

When a word is used in a certain context often enough, it can take on a whole new meaning. One such casualty of the English language is the word "justice." By planting it within the phrase "economic justice," we begin to equate justice with the equal distribution of wealth. Would economic equality through the transfer of wealth by the state be the realization of economic justice?

Nature does not produce a state of equality. No two people have the same physical or mental abilities. Add to the equation the free will of the individual either to utilize the talents that God has rationed—or to squander them—and economic equality becomes a goal that is incompatible with the right to property.

To correct nature's "imperfections," the socialist looks to the state to employ the leveling power of the law. Socialists assume that economic inequality in and of itself constitutes economic injustice. They regard wealth acquired through risk, toil, and sweat to be ill-gotten gain if it is "excessive." Therefore justice must be *imposed*, or rather, *inflicted* by the state upon society through positive laws.

Positive laws are tyrannical. One individual's rights—whether they be life, liberty, or property—must be sacrificed by the state in order to fulfill the positive rights of another. For example, if housing is considered a "right," then the state will have to confiscate wealth (property) from those who have provided shelter for themselves in order to house those who have not. This is done under the banner of justice, when justice is defined as equality.

In *The Law*, French economist Frederic Bastiat wrote: " 'The purpose of the law is to cause justice to reign' is not a rigorously accurate statement. It ought to be stated that the purpose of the law is to prevent injustice from reigning. In fact, it is injustice, instead of justice, that has an existence of its own. Justice is achieved only when injustice is absent."

True justice is realized when our lives, and property are secure, and we are free to express our thoughts without fear of retri-

Mr. Da Vee is a freelance writer living in Monterey, California.

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bution. Just laws are negative in nature; they exist to thwart the violation of our natural rights. Government ought to be the collective organization—that is, the extension—of the individual's right of self-defense, and its purpose to protect our lives, liberties, and property.

Socialism's allure lies in its deceptive appeal to become part of a noble cause—to create a utopian society where every individual is free from want. Yet a job, home, education, medical care, and standard of living, are not "rights." They are things that may be gained in proportion to the effort and ingenuity spent in acquiring them—in a free society.

Socialists are skilled at manipulating language in order to advance their ideology. A movement that claims to seek economic justice is much more palatable to the American public than one which openly seeks the advance of socialism. Americans love justice, but most—especially politicians—will not admit to being socialists. Instead they will describe themselves as "liberals" or "progressives." These are deliberately deceptive labels designed to make socialists appear to be operating from a moral high ground. For, to oppose a liberal implies that you seek to constrain—when in fact just the opposite is true. It is the modern liberal who views government as a tool to engineer society and control our lives. To oppose a progressive implies that you are "backwards" and an obstacle to progress. And to oppose "economic justice" as it is defined by liberals/progressives, is to favor injustice.

Economic justice is not realized when we are equal, it is realized when we are free to own property and order its direction. Wealth redistribution by the state is nothing more than legalized economic injustice.

Government that tramples the property rights of its citizens makes itself their adversary, and will eventually collapse or face insurrection. A government that exists to protect personal liberty and property rests upon a firm foundation—the allegiance of those it governs. □

HAD ENOUGH?

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THE FREEMAN
IDEAS ON LIBERTY

The Economic Costs of Sexual Harassment

by Elizabeth Larson

Sexual harassment is "subtle rape," or so says psychologist John Gottman. Judging from the millions of dollars U.S. companies are being forced to spend to combat sexual harassment, American men have apparently become subtle rapists and sexual predators on a scale unimaginable even to the most vocal feminists of a decade or two ago.

Sexual harassment lawsuits such as the ones brought about by the Del Laboratories secretaries and employees of Mitsubishi make headlines nationwide, but too many companies and organizations still think "that can't happen to us." But it can—and an entire industry has sprung up in the last half decade to help businesses avoid the nightmare of a sexual harassment lawsuit.

Unfortunately, though, this army of experts may in fact be fostering sexual harassment complaints even as it seeks to prevent them. Like the college twentysomethings persuaded by their feminist sisters that they were in fact raped, today's young businesswomen are being taught that behavior they would have once considered boorish or inappropriate should be rendering them victimized and helpless—and in desperate need of huge financial compensation.

Like the concept of "date rape," the term "sexual harassment" didn't even exist two decades ago. It joined the American lexicon with the publication of Lin Farley's *Sexual Shakedown: The Sexual Harassment of Women on the Job* (1978) and Catharine MacKinnon's *Sexual Harassment of Working Women* (1979). MacKinnon, the well known feminist law professor, was largely responsible for convincing the legal community and social theorists that sexual harassment is a form of sex discrimination—thus implying it is as reprehensible a crime as racism.

Complaints began to arrive at the Equal Employment Opportunity Commission slowly. Women filed a total of 3,661 charges in 1981, and that figure rose gradually throughout the decade, reaching 5,623 in 1989. With the nineties, however, came an explosion. From 6,127 cases in 1990, the numbers skyrocketed to 14,420 in 1994. Evidence from state agencies mirrors the surge at the EEOC. The Kansas Human Rights Commission received only 75 complaints of sexual harassment in 1991, for example. That figure jumped 261 percent by fiscal year 1995 to reach a record 271 reports of alleged harassment.

Lawyers point to several reasons for the increase in complaints filed. In the 1986 case *Meritor Savings Bank v. Vinson*, the

Ms. Larson has written on women's business issues for Investor's Business Daily, American Enterprise *magazine, and the Knight-Ridder Financial News Service. An earlier version of this article appeared in the Spring 1996 issue of* The Women's Quarterly.

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hostile-environment argument was upheld for the first time. This dramatically increased an employer's liability: the plaintiff was no longer required to prove she had been subjected to a *quid pro quo* situation (e.g., "have an affair with me or you're fired"). As the hostile-environment argument caught on, complaints that would once have been considered frivolous were suddenly accorded legal merit. Then came 1991 and Anita Hill. In the three weeks after the Clarence Thomas hearings, the EEOC saw a 23 percent surge in complaints of sexual harassment filed with its offices. The 9 to 5 National Association of Working Women received 200 calls in the average week before Anita Hill stepped forth; after Hill's allegations, they were fielding 200 calls a day.

That year was a banner one for sexual harassment lawyers and radical feminists for other reasons as well. The "reasonable woman" standard was created in *Ellison v. Brady* (the standard was affirmed by the U.S. Supreme Court in 1993), and the *Jacksonville Shipyards* case resulted in the inclusion of workplace pinups as proof of a hostile environment.

Potential Litigation

The high and continually rising numbers of complaints of sexual harassment filed means that the potential for litigation is serious for U.S. businesses, especially since the compensatory and punitive damages awarded to complainants have also risen sharply in recent years. A quick look at cases over the last two decades shows the steep climb in awards.

In what is considered the first sexual harassment case, *Barnes v. Train* in 1974, a woman working as the administrative assistant to the director of the Environmental Protection Agency's Equal Opportunities Division filed suit alleging that her position was abolished after she refused to engage in an "after-hours affair" with the director. The District Court dismissed the case because, although Barnes was discriminated against, the discrimination was based not on the fact that she was a woman but that she refused to engage in sexual relations with her boss. The decision was reversed on appeal. Barnes was awarded just $18,000 in back pay as damages for lost promotions.

The rise in awards over the years that followed seems directly proportional to the decline in seriousness of the complainants' charges. The 1990 settlement in *Bihun v. AT&T Information Systems*, for example, was for $2 million. This small fortune was awarded to a personnel manager who suffered mental distress after receiving unwelcome advances from her supervisor, taking time off from work to recover, and finding her job eliminated when she returned. Today, Wal-Mart Stores is appealing a 1995 court ruling that awarded $50 million in punitive damages to a receiving department worker who charged that her supervisor was verbally abusive and liked to joke about her figure.

The transition from an "after-hours affair" to "verbally abusive" behavior as the definition of what constitutes sexual harassment mirrors a shift in our moral worldview. As Ellen Frankel Paul has noted, we have gone from punishing behavior that is objectively wrong to that which is subjectively offensive. As the courts' sensitivity to super-sensitive women has expanded, the average amount being awarded to plaintiffs has skyrocketed to reach $250,000 today. The $18,000 awarded to Ms. Barnes, whose treatment few would not consider genuine sexual harassment, is pocket change by comparison.

While relatively few women filing complaints actually get a shot at this legal lottery (the EEOC ended up litigating just 50 cases in 1990), the numbers available regarding how much all of this alleged harassment costs companies in terms other than court awards and legal fees are staggering indeed. Of the women who feel they have been sexually harassed, more than 25 percent use leave time to avoid the situation. At least 15 percent leave their jobs. Nearly half of them try to ignore the harassing behavior and suffer a 10-percent drop in productivity as a result (moreover, their friends who are

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aware of the situation suffer a 2 percent drop in productivity as well). One estimate puts the grand total to U.S. businesses for sexual harassment at $6.7 million annually in absenteeism, employee turnover, low morale, and low productivity. A 1988 study, however, found that sexual harassment in federal offices cost the government about $267 million in turnover and lost productivity over two years. Clearly such costs are difficult to quantify, but even the more conservative estimates available are extremely high.

And attempts at pinning down the vague costs of things like productivity are just the beginning of what U.S. businesses are paying for the thousands of sexual harassment claims filed every year. A 1992 study, for instance, found that 21 federal departments paid $139 million simply *to process* the 6,883 complaints filed with the EEOC the previous year.

Facing the Problem

Faced with the surge in sexual harassment cases nationwide, employers are adopting a two-pronged approach to the problem. Their offensive strategy is to "re-educate" their employees so that the sexism and thoughtlessness that results in sexual harassment in the workplace is eliminated. Their defensive approach is to line up legal experts to review their companies' harassment policies in preparation for the inevitable harassment charge and, more recently, to purchase a new type of business insurance designed to help them through a sexual harassment case without being financially destroyed.

Thanks to the overall rise in employment discrimination cases (up 2,200 percent in the last two decades), sales of general employment-practices liability insurance have been on the rise in recent years. But companies ranging in size from a dozen workers to more than 10,000 employees are now purchasing sexual harassment liability insurance. Invented in the aftermath of Anita Hill's allegations against Clarence Thomas, such policies have only started catching on very recently. Although President Clinton's policy was a personal rather than corporate one, the information released last spring about his use of $900,000 in liability insurance to cover the costs of Paula Jones's sexual harassment case against him will undoubtedly boost the sales of such policies for businesses.

Premiums for this new type of business liability insurance range from $1,500 to $25,000 annually, depending on many factors including turnover rates and whether the company has faced sexual harassment charges before. Coverage ranges from $250,000 to $25 million and includes court awards and defense costs—although not necessarily punitive damages.

The first to introduce liability policies to cover sexual harassment specifically was Lexington Insurance, in March 1992. Chubb Insurance Company followed suit, but until as recently as 1994 the two had the field pretty much to themselves. By the middle of that year, sales of the policies had risen 25 percent, and companies like Reliance National and New Hampshire Insurance were joining the trend. Company officials will not reveal exactly how many of the sexual harassment policies have been sold, but Chubb has said its business has been at least doubling every year. Business is certainly good enough that today there are about a dozen insurance companies jockeying for their share of clients. Although less than half of the Fortune 500 companies now have sexual harassment coverage, insurance company officials predict it will become a standard part of most business insurance portfolios within the next two or so years.

Sexual harassment liability insurance does have its critics, though—many of them from the corps of experts in prevention and re-education who believe that the best way for a company to protect itself is by hiring them to stop sexual harassment from occurring in the first place.

But try telling that to someone like Bill Buckingham. "I'll get even," were the last words the president of Buckingham Computer Services Inc. heard when he fired a female employee for not doing her job. He

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and his company, a computer consulting business with some 40 employees, were sued for sexual harassment and wrongful discharge.

"Her comment was that I touched her on the back, which I had," Buckingham told *Inc.* magazine at the time. "We're a pretty close-knit company, and there was no question that I had patted people on the back. Nothing sexual. I'd tell people they were looking sharp today, ask if that was a new dress, stuff like that. That's basically what the suit was based on."

The ex-employee demanded more than $100,000 to settle the case. Since that figure represented a year's profit to his company, Buckingham tried to fight. He gave up after a year-and-a-half battle and $25,000 in legal costs. The most vigorous of prevention programs would not have saved Buckingham from such a suit, but sexual harassment liability insurance would have been a financial lifesaver.

There is no national clearinghouse for information on the sexual harassment industry, but sampling some of the different items these entrepreneurial experts offer gives a good extent of the enormous, and growing, business they have on their hands. Because many consultants combine sexual harassment training with their entire "diversity training" programs, the numbers for sexual harassment programs, as high as they are, are still conservative.

Sexual harassment prevention consultants provide a myriad of services to the business, small or large, seeking to minimize workplace problems. They will write a sexual harassment policy and the procedure for enforcing it tailored to specific companies' needs. They provide general staff seminars on what sexual harassment is, how to avoid a sexual harasser, and what to do if you feel you have been sexually harassed. They provide seminars specifically geared to the management personnel who are responsible for investigating and dealing with harassment charges. And they offer additional training for management so they themselves can conduct future workshops within their company.

Such seminars range from four or so hours to two days and cost upwards of several thousands of dollars each time. And that's just the beginning. As the *9 to 5 Guide to Combating Sexual Harassment* suggests: "Training should be *ongoing*, not a one-time session, and presented *on paid time*." *Sexual Harassment on the Job*, another guide for employers, recommends that companies serious about combating sexual harassment have employees complete a Sexual Harassment Survey every six months. And don't forget that every new employee—especially in management—must go through the awareness and prevention program if the company wants to minimize its risk.

For the smaller companies that cannot afford real-life consultants, there are numerous books, manuals, and videotapes to help them. Videotapes can range from $50 to $200 for a 24-hour rental. The Seattle-based Pacific Resource Development Group, one of the best known in the business, offers audiocassettes beginning at about $13.00; a videotape, *Shades of Grey*, for about $1,500; and a monthly newsletter for $120 annually. The company's annual sales exceed half a million, and its director, Susan Webb, has trained about a dozen other folks (at $5,000 a head) to go into the harassment-prevention consulting business themselves.

Consulting firms aren't the only ones getting in on the action. Law firms are also expanding their programs to include sexual harassment prevention. The San Francisco-based firm of Littler, Mendelson, Fastiff, Tichy & Mathiason, one of the largest employment law firms in the nation, has gotten into the business of helping companies avoid sexual harassment lawsuits. A typical one-day seminar for 30 or so people costs from $1,500 to $3,000. With the majority of Littler's cases now relating to sexual harassment, this one firm alone has a tremendous market for its prevention seminars.

An excerpt from one sexual harassment guide indicates the extent to which these legions of experts are advising companies to go:

> To maximize options for the complainant, the policy must allow for *several*

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different channels. The procedure should not require the complainant to report the problem to her supervisor, since that person may be the harasser. At least one option should be to complain to an employee through an affirmative action committee, women's committee, or other committee. If feasible, designate an ombudsperson to counsel victims. . . . Management should designate one or more specially trained employees who will carry out investigations. . . . Follow-up should also be done with harassers—even if they are asked to resign—to make sure they understand what was wrong with their behavior.

As these recommendations indicate, an aggressive program requires the employer not just to support the sexual harassment industry directly but to create actual salaried positions for in-house harassment experts. Yet the threat of lawsuits is so great that, according to the Society for Human Resource Management, three-quarters of the companies in a recent poll had implemented some form of the many costly prevention steps now being recommended. Among the major corporations known for their "enlightened" sexual harassment programs are AT&T, Coca Cola, Avon, Texas Industries, and Harley-Davidson. DuPont company maintains a toll-free sexual harassment hotline. Four staff members trained in sexual harassment and rape prevention are assigned to the hotline and carry beepers 24 hours a day. The company assigns one man and one woman to investigate each case. Corning Inc. picks up the tab for employees who wish to speak with a confidential outside consultant.

Government Intervenes

In some areas of the country, the burgeoning sexual harassment industry has not been getting a boost simply from plaintiff-friendly juries, but from state legislatures as well. Since 1993 California has required all employers—regardless of size—to notify employees that sexual harassment is unlawful. The employer must provide examples of what constitutes sexual harassment and clearly explain how harassed employees can get in touch with the appropriate government agencies. As one California lawyer who conducts prevention seminars said, "Employers are required to almost assist employees in their claims against them." Connecticut employers with more than 50 employees have been required since 1992 to conduct at least two hours of sexual harassment training for all management; if an employer has more than three workers, posters about sexual harassment must be prominently posted in the workplace. Other states have considered similar legislation in recent years.

This rapid growth of the sexual harassment industry is nothing less than liberalism's tax on the business world. The culture of victimization is becoming so embedded in the courts and, increasingly, the state legislatures, that a handful of sexual harassment lawsuits are now seen as representative of the average working woman's lot—and both working women and their employers are paying the very high cost. The continual rise in sexual harassment claims, even as women are poised to take over the reins at 50 percent of the small and mid-sized businesses in one recent survey (to use just one example), suggests that the sexual harassment industry itself is in large part to blame for this phantom epidemic that has employers so scared.

Rather than limiting themselves to explanations of the law, the experts are teaching women to spot lechery and lasciviousness behind every friendly smile. In such a world, where every man is considered a potential rapist (subtle though he may be), sexual harassment lawsuits easily become a tool for revenge. Of course, there is certainly boorish behavior going on in workplaces all across America, but for much of that, too, we can thank liberalism. The degradation of manners and proper social behavior that is the legacy of the anything-goes Sixties merely compounds workplace situations in which women are encouraged to go to the courts for every little slight.

It's time to inject a little reasonableness

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into workplace relationships. And ironically enough, the feminist *9 to 5 Guide* offers some genuine common sense in its guidelines for "How Not to Harass." First: "Until you learn otherwise, assume that a woman you don't know will *not* enjoy off-color jokes or sexual advances at work." Second: "Sharpen your listening skills. If a woman's response, whether verbal or physical, seems negative, trust that it is. Does she avert her eyes or turn away? Assume that no means no." And third: "If you're not sure whether your workplace behavior is acceptable, ask yourself how you'd feel if your wife, daughter, or sister were witnessing your words and actions or were on the receiving end of such behavior."

Yet what this feminist manual is offering are basically rules for how any civilized, courteous group of people would interact. In other words, mind your manners! It is a sad commentary on social mores when we have to turn to a workplace manual to be told how proper people behave—once upon a time such behavior was learned at home.

As with so many other liberal causes—date rape, domestic abuse, child abuse—the expansion of the crime's definition serves only to obscure genuine instances of it. When we look back at cases such as *Barnes*, there is little doubt that spotlighting the role of women in the workplace, as the women's movement certainly did, has served to curtail such abuses of power. But teaching today's young women to find harassment and slights on every rung of the workplace ladder hurts everyone in the long run—most of all women.

The more inroads women make into the workplace the more they will have to deal with office curmudgeons and critics, louts and loudmouths, backstabbers, brutes, and, yes, boors—as working men have always had to do. Unpleasant personalities can never be legislated away. But when a woman is cast in with a colleague from the last of these categories, the best advice for handling him comes not from any high-priced sexual harassment expert but from the pages of literature. As Cervantes once said, "The woman who is resolved to be respected can make herself so even amidst an army of soldiers." □

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THE FREEMAN
IDEAS ON LIBERTY

Berton Braley, Commercial Poet

by Chris Baker

Although Ludwig von Mises called the twentieth century "the age of the dictators and tyrants," it should also be remembered as the century that produced the greatest philosophers of freedom. One of the most tenacious and better known (but almost entirely forgotten today) of those thinkers was Berton Braley (1882–1966).

In 1923, the Honolulu *Star-Bulletin* called him "the most widely read American poet of today." The Brooklyn *Eagle* declared him "the most prolific verse writer in America today."[1] His obituary in the *New York Times* reported that he had written "verses by the thousands, short stories by the hundreds and books by the score." A newspaper in Portland, Oregon, added: ". . . let anyone say 'Berton Braley,' in the average crowd of regular Americans and it's dollars to doughnuts that he'll poll a larger number of hands than any of the well known old masters. . . ."[2]

Braley began his brilliant career as a reporter in Butte, Montana—first for the *Inter-Mountain*, then for the *Evening News*. There, he was able to observe the gold and silver miners working in the "mile-high-and-mile-deep" city. This experience cultivated a respect for the working world and for human achievement that would shine throughout his writings. His poem "The Power Plant" begins:

Whirr! Whirr! Whirr! Whirr!
The mighty dynamos hum and purr,
And the blue flames crackle and glow and burn
Where the brushes touch and the magnets turn.[3]

He was definitely a contrast to the "cultured" writers of his day.

Both his writing and his actions reflected his belief that anything is possible. His "educators," after all, had told him that it would be "impossible" and "unprecedented" to play football and to finish three and a half years of high school in only two years, but he did.[4]

He sold ten "Mining Camp Ballads" to the *Saturday Evening Post* in 1909 and decided to leave Butte for the major leagues of writing. He moved to New York City and became a full-time freelancer. Over the years, his work also appeared in *Coal Age*, *Engineering Journal*, *Forbes*, *Atlantic Monthly*, *American Machinist*, *Nation's Business*, *Iron Age*, *The Century*, and "nearly every major popular magazine of his day."[5] For three years the Newspaper Enterprise Association circulated "Berton Braley's Daily Poem." He reported on World War I for *Collier's* and even wrote poems about the World Series.

Artistic Commercialism

Unlike many artists, Braley had no objections to making money for his work. He never forgot that working people make it possible for artists to be artists. He com-

Mr. Baker is a patented inventor and writer living in Moundsville, West Virginia. His work has appeared in Liberty *magazine.*

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mented in his biography, *Pegasus Pulls a Hack: Memoirs of a Modern Minstrel*:

> I have been called a "prostitute" by several critics and amateur poets—never by a professional. . . . I honestly believe that sound commercialism is the best test of true value in art. People work hard for their money and if they won't part with it for your product the chances are that your product hasn't sufficient value. An artist or writer hasn't any monopoly. . . .
>
> If the public response to his artistry is lacking, he'd do well to spend more time analyzing what's the matter with his work, and less time figuring what's the matter with the public. . . .
>
> Genius doesn't starve.[6]

Few artists of any kind have respected their public as much as he respected his.

Braley also remembered that the source of wealth was not just labor, but the human mind. In "Enchanted Machines," he wrote:

> Enchanted, in fact, with the only true magic—
> The magic that lives in the Brain,
> By which man has banished his drudgery tragic,
> The sweat and the toil and the strain,
> The magic that, seeking new visions, new courses,
> Knows not what "Impossible" means,
> The magic that harnesses infinite forces
> And builds these Enchanted Machines!

He also sang of "The Thinker," "Adventurers of Science," and "The Electrician."

The mind was the source of his success. Braley looked at the world the same way that his heroes did. He was a keen observer with an Ayn Rand-like ability to see greatness in things which appeared to be simple and dull. He wrote about "The Telephone Directory":

> What is there seeming duller than this book,
> This stolid volume of prosaic print?
> And yet it is a glass through which we look
> On wonderland and marvels without stint.

He combined this with the quick-wittedness of a Johnny Carson. He participated in a limerick contest in 1925 with 200 versifiers at the Roosevelt Hotel in New York. He was given the first line and won first prize with this effort:

> There was an old fellow named Bryan,
> Whose voice was forevermore cryin'
> Do you think that my shape
> Was derived from an ape?
> Well, I think Charlie Darwin was lyin'.[7]

And all of his writings demonstrated a thorough knowledge of the language that would amaze any English teacher.

He knew that the beneficiaries of a free-market system were the people and that the beneficiaries of the New Deal would be the bureaucrats. His poem "Business is Business" finishes with: "'Business is Business,' the Big Man said, / 'And that business is to serve.'" His *New Deal Ditties* were published in 1936 and included poems like "The Little Tin Gods" (in Washington) and "Three Little Bureaucrats," written in a Menckenesque tone. In "Fresh Every Hour," he wrote about a problem which has plagued almost every democracy in history:

> Election promises, glibly spoken,
> Are easily made—and easily broken.
> They're frail and fragile and slightly brittle,
> So why complain if they crack a little?

Unfortunately, his "ditties" emphasized the negative case against socialism more than the positive case for capitalism.

Verse and Virtue

Even in his sixties, Braley remained prolific. He worked for an advertising agency until 1952. He summarized: "I've done greeting cards, mottoes, calendars, and bridge scores. I've written verse for about every type of trade journal there is, sung of machine tools, electric toasters, coal breakers, Mergenthalers, vacuum cleaners, ships and shoes and sealing wax."[8] He liked the "'free' in freelancing"[9] and made the most

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of that freedom. In 1955, he estimated his output at "11,000 verses, several hundred short stories, and many articles. . . ."[10]

Berton Braley was a dedicated philosopher of freedom. He was fascinated by the Industrial Revolution and understood its implications. He equally understood the impracticality and the immorality of socialistic programs like the New Deal. He held his highest regards for the individual who displayed the virtues of courage, honesty, fruitfulness, and perseverance—whether the person was a farmer, a pioneer, an engineer, a waiter, an industrialist like Henry Ford, or a doctor "At a War Hospital." In his poem "Why Not?", he asked:

> The spirit of man is not wrapped in the shroud,
> Why shouldn't the soul of a mortal be proud?

□

1. Berton Braley, *Virtues in Verse*, ed. Linda Tania Abrams (Milpitas, Cal.: The Alantean Press, 1993), p. viii.
2. *Ibid.*
3. *Ibid.*, p. 4. Subsequent quotations of Braley's verse are also from *Virtues in Verse*.
4. *Ibid.*, p. 111.
5. *Ibid.*, p. ix.
6. *Ibid.*, pp. 128, 147.
7. "Berton Braley, Poet Dies at 83," *New York Times*, January 27, 1966.
8. *Ibid.*
9. Braley, p. 160.
10. *New York Times*.

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THE FREEMAN
IDEAS ON LIBERTY

John Locke—Natural Rights to Life, Liberty, and Property

by Jim Powell

A number of times throughout history, tyranny has stimulated breakthrough thinking about liberty. This was certainly the case in England with the mid-seventeenth-century era of repression, rebellion, and civil war. There was a tremendous outpouring of political pamphlets and tracts. By far the most influential writings emerged from the pen of scholar John Locke.

He expressed the radical view that government is morally obliged to serve people, namely by protecting life, liberty, and property. He explained the principle of checks and balances to limit government power. He favored representative government and a rule of law. He denounced tyranny. He insisted that when government violates individual rights, people may legitimately rebel.

These views were most fully developed in Locke's famous *Second Treatise Concerning Civil Government*, and they were so radical that he never dared sign his name to it. He acknowledged authorship only in his will. Locke's writings did much to inspire the libertarian ideals of the American Revolution. This, in turn, set an example which inspired people throughout Europe, Latin America, and Asia.

Mr. Powell is editor of Laissez Faire Books and a senior fellow at the Cato Institute. He has written for the New York Times, *the* Wall Street Journal, Barron's, American Heritage, *and more than three dozen other publications.* *Copyright © 1996 by Jim Powell.*

Thomas Jefferson ranked Locke, along with Locke's compatriot Algernon Sidney, as the most important thinkers on liberty. Locke helped inspire Thomas Paine's radical ideas about revolution. Locke fired up George Mason. From Locke, James Madison drew his most fundamental principles of liberty and government. Locke's writings were part of Benjamin Franklin's self-education, and John Adams believed that both girls and boys should learn about Locke. The French philosopher Voltaire called Locke "the man of the greatest wisdom. What he has not seen clearly, I despair of ever seeing."

It seems incredible that Locke, of all people, could have influenced individuals around the world. When he set out to develop his ideas, he was an undistinguished Oxford scholar. He had brief experience with a failed diplomatic mission. He was a physician who long lacked traditional credentials and had just one patient. His first major work wasn't published until he was 57. He was distracted by asthma and other chronic ailments.

There was little in Locke's appearance to suggest greatness. He was tall and thin. According to biographer Maurice Cranston, he had a "long face, large nose, full lips, and soft, melancholy eyes." Although he had a love affair which, he said, "robbed me of the use of my reason," he died a bachelor.

Some notable contemporaries thought

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highly of Locke. Mathematician and physicist Isaac Newton cherished his company. Locke helped Quaker William Penn restore his good name when he was a political fugitive, as Penn had arranged a pardon for Locke when he had been a political fugitive. Locke was described by the famous English physician Dr. Thomas Sydenham as "a man whom, in the acuteness of his intellect, in the steadiness of his judgement, . . . that is, in the excellence of his manners, I confidently declare to have, amongst the men of our time, few equals and no superiors."

Family Background

John Locke was born in Somerset, England, August 29, 1632. He was the eldest son of Agnes Keene, daughter of a small-town tanner, and John Locke, an impecunious Puritan lawyer who served as a clerk for justices of the peace.

When young Locke was two, England began to stumble toward its epic constitutional crisis. The Stuart King Charles I, who dreamed of the absolute power wielded by some continental rulers, decreed higher taxes without approval of Parliament. They were to be collected by local officials like his father. Eight years later, the Civil War broke out, and Locke's father briefly served as a captain in the Parliamentary army. In 1649, rebels hanged Charles I. But all this led to the Puritan dictatorship of Oliver Cromwell.

Locke had a royalist and Anglican education, presumably because it was still a ticket to upward mobility. One of his father's politically connected associates nominated 15-year-old John Locke for the prestigious Westminster School. In 1652, he won a scholarship to Christ Church, Oxford University's most important college, which trained men mainly for the clergy. He studied logic, metaphysics, Greek, and Latin. He earned his bachelor of arts degree in 1656, then continued work toward a master of arts and taught rhetoric and Greek. On the side, he spent considerable time studying with free spirits who, at the dawn of modern science and medicine, independently conducted experiments.

Having lived through a bloody civil war, Locke seems to have shared the fears expressed by fellow Englishman Thomas Hobbes, whose *Leviathan* (1651) became the gospel of absolutism. Hobbes asserted that liberty brought chaos, that the worst government was better than no government—and that people owed allegiance to their ruler, right or wrong. In October 1656, Locke wrote a letter expressing approval that Quakers—whom he called "mad folks"—were subject to restrictions. Locke welcomed the 1660 restoration of the Stuart monarchy and subsequently wrote two tracts that defended the prerogative of government to enforce religious conformity.

In November 1665, as a result of his Oxford connections, Locke was appointed to a diplomatic mission aimed at winning the Elector of Brandenburg as an ally against Holland. The mission failed, but the experience was a revelation. Brandenburg had a policy of toleration for Catholics, Calvinists, and Lutherans, and there was peace. Locke wrote his friend Robert Boyle, the chemist: "They quietly permit one another to choose their way to heaven; and I cannot observe any quarrels or animosities amongst them on account of religion."

Locke and Shaftesbury

During the summer of 1666, the rich and influential Anthony Ashley Cooper visited Oxford where he met Locke who was then studying medicine. Cooper suffered from a liver cyst that threatened to become swollen with infection. Cooper asked Locke, apparently competent, courteous, and amusing, to be his personal physician. Accordingly, Locke moved into a room at Cooper's Exeter House mansion in London. Locke was about to embark on adventures which would convert him to a libertarian.

Cooper was born an aristocrat, served in the King's army during the Civil War, switched to the Puritan side, and commanded Puritan soldiers in Dorset. But he was dismissed amidst Puritan purges. He

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was arrested for conspiring to overthrow the Puritan Commonwealth and bring back the Stuarts. King Charles II elevated him to the peerage—he became Lord Ashley, then the Earl of Shaftesbury—and joined the King's Privy Council.

Soon Shaftesbury spearheaded opposition to the Restoration Parliaments, which enacted measures enforcing conformity with Anglican worship and suppressing dissident Protestants. He became a member of the four-man cabinet and served briefly as Lord High Chancellor, the most powerful minister. Shaftesbury championed religious toleration for all (except Catholics) because he had seen how intolerance drove away talented people and how religious toleration helped Holland prosper. He invested in ships, some for the slave trade. He developed Carolina plantations. Locke is believed to have drafted virtually the entire *Fundamental Constitutions of Carolina*, providing for a parliament elected by property owners, a separation of church and state, and—surprisingly—military conscription.

Shaftesbury's liver infection worsened, and Locke supervised successful surgery in 1668. The grateful Shaftesbury encouraged Locke to develop his potential as a philosopher. Thanks to Shaftesbury, Locke was nominated for the Royal Society, where he mingled with some of London's most fertile minds. In 1671, with a half-dozen friends, Locke started a discussion group to talk about principles of morality and religion. This led him to further explore the issues by writing early drafts of *An Essay Concerning Human Understanding*.

Shaftesbury retained Locke to analyze toleration, education, trade, and other issues, which spurred Locke to expand his knowledge. For example, Locke opposed government regulation of interest rates: "The first thing to be considered is whether the price of the hire of money can be regulated by law; and to that, I think generally speaking that 'tis manifest that it cannot. For, since it is impossible to make a law that shall hinder a man from giving away his money or estate to whom he pleases, it will be impossible by any contrivance of law, to hinder men . . . to purchase money to be lent to them. . . ."

Locke was in the thick of just about everything Shaftesbury did. Locke helped draft speeches. He recorded the progress of bills through Parliament. He kept notes during meetings. He evaluated people considered for political appointments. Locke even negotiated the marriage terms for Shaftesbury's son and served as tutor for Shaftesbury's grandson.

Shaftesbury formed the Whig party, and Locke, then in France, carried on a correspondence to help influence Parliamentary elections. Shaftesbury was imprisoned for a year in the Tower of London, then he helped pass the Habeas Corpus Act (1679), which made it unlawful for government to detain a person without filing formal charges or to put a person on trial for the same charge twice. Shaftesbury pushed "exclusion bills" aimed at preventing the king's Catholic brother from royal succession.

Countering Stuart Absolutism

In March 1681, Charles II dissolved Parliament, and it soon became clear that he did not intend to summon Parliament again. Consequently, the only way to stop Stuart absolutism was rebellion. Shaftesbury was the king's most dangerous opponent, and Locke was at his side. A spy named Humphrey Prideaux reported on Locke's whereabouts and on suspicions that Locke was the author of seditious pamphlets.

In fact, Locke was contemplating an attack on Robert Filmer's *Patriarcha, or The Natural Power of Kings Asserted* (1680), which claimed that God sanctioned the absolute power of kings. Such an attack was risky since it could easily be prosecuted as an attack on King Charles II. Pamphleteer James Tyrrell, a friend whom Locke had met at Oxford, left unsigned his substantial attack on Filmer, *Patriarcha Non Monarcha or The Patriarch Unmonarch'd*; and Tyrrell had merely implied the right to rebel against tyrants. Algernon Sidney was hanged, in part, because the king's agents

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discovered his manuscript for *Discourses Concerning Government*.

Locke worked in his bookshelf-lined room at Shaftesbury's Exeter House, drawing on his experience with political action. He wrote one treatise which attacked Filmer's doctrine. Locke denied Filmer's claim that the Bible sanctioned tyrants and that parents had absolute authority over children. Locke wrote a second treatise, which presented an epic case for liberty and the right of people to rebel against tyrants. While he drew his principles substantially from Tyrrell, he pushed them to their radical conclusions: namely, an explicit attack on slavery and defense of revolution.

Exile in Holland

As Charles II intensified his campaign against rebels, Shaftesbury fled to Holland in November 1682 and died there two months later. On July 21, 1683, Locke might well have seen the powers that be at Oxford University burn books they considered dangerous. It was England's last book burning. When Locke feared his rooms would be searched, he initially hid his draft of the two treatises with Tyrrell. Locke moved out of Oxford, checked on country property he had inherited from his father, then fled to Rotterdam September 7.

The English government tried to have Locke extradited for trial and presumably execution. He moved into one Egbertus Veen's Amsterdam house and assumed the name "Dr. van der Linden." He signed letters as "Lamy" or "Dr. Lynne." Anticipating that the government might intercept mail, Locke protected friends by referring to them with numbers or false names. He told people he was in Holland because he enjoyed the local beer.

Meanwhile, Charles II had converted to Catholicism before he died in February 1685. Charles's brother became King James II, who began promoting Catholicism in England. He defied Parliament. He replaced Anglican Church officials and sheriffs with Catholics. He staffed the army with Catholic officers. He turned Oxford University's Magdalen College into a Catholic seminary.

In Holland, Locke worked on his masterpiece, *An Essay Concerning Human Understanding*, which urged people to base their convictions on observation and reason. He also worked on a "letter" advocating religious toleration except for atheists (who wouldn't swear legally binding oaths) and Catholics (loyal to a foreign power).

Catholicism loomed as the worst menace to liberty because of the shrewd French King Louis XIV. He waged war for years against England and Holland—France had a population around 20 million, about four times larger than England and 10 times larger than Holland.

On June 10, 1688, James II announced the birth of a son, and suddenly there was the spectre of a Catholic succession. This convinced Tories, as English defenders of royal absolutism were known, to embrace Whig ideas of rebellion. The Dutchman William of Orange, who had married Mary, the Protestant daughter of James II, agreed to assume power in England as William III and recognize the supremacy of Parliament. On November 5, 1688, William crossed the English Channel with ships and soldiers. James II summoned English forces, but they were badly split between Catholics and Protestants. Within a month, James II fled to France. This was the "Glorious Revolution," so-called because it helped secure Protestant succession and Parliamentary supremacy without violence.

Locke resolved to return home, but there were regrets. For example, he wrote the minister and scholar Philip van Limborch: "I almost feel as though I were leaving my own country and my own kinsfolk; for everything that belongs to kinship, good will, love, kindness—everything that binds men together with ties stronger than that of blood—I have found among you in abundance. . . . I seem to have found in your friendship alone enough to make me always rejoice that I was forced to pass so many years amongst you."

Locke sailed on the same ship as the soon-to-be Queen Mary, arriving in Lon-

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don, February 11, 1689. During the next 12 months, his major works were published, and suddenly he was famous.

A Letter Concerning Toleration

Limborch published Locke's *Epistola de Tolerantia* in Gouda, Holland, in May 1689—Locke wrote in Latin presumably to reach a European audience. The work was translated as *A Letter Concerning Toleration* and published in October 1689. Locke did not take religious toleration as far as his Quaker compatriot William Penn—Locke was concerned about the threat atheists and Catholics might pose to the social order—but he opposed persecution. He went beyond the Toleration Act (1689), specifically calling for toleration of Anabaptists, Independents, Presbyterians, and Quakers.

"The Magistrate," he declared, "ought not to forbid the Preaching or Professing of any Speculative Opinions in any Church, because they have no manner of relation to the Civil Rights of the Subjects. If a Roman Catholick believe that to be really the Body of Christ, which another man calls Bread, he does no injury therby to his Neighbour. If a Jew do not believe the New Testament to be the Word of God, he does not thereby alter any thing in mens Civil Rights. If a Heathen doubt of both Testaments, he is not therefore to be punished as a pernicious Citizen." Locke's *Letter* brought replies, and he wrote two further letters in 1690 and 1692.

Locke's Two Treatises on Government

Locke's two treatises on government were published in October 1689 with a 1690 date on the title page. While later philosophers have belittled it because Locke based his thinking on archaic notions about a "state of nature," his bedrock principles endure. He defended the natural law tradition whose glorious lineage goes back to the ancient Jews: the tradition that rulers cannot legitimately do anything they want, because there are moral laws applying to everyone.

"Reason, which is that Law," Locke declared, "teaches all Mankind, who would but consult it, that being all equal and independent, no one ought to harm another in his Life, Health, Liberty, or Possessions." Locke envisoned a rule of law: "have a standing Rule to live by, common to every one of that Society, and made by the Legislative Power erected in it; A Liberty to follow my own Will in all things, where the Rule prescribes not; and not to be subject to the inconstant, uncertain, unknown, Arbitrary Will of another Man."

Locke established that private property is absolutely essential for liberty: "every Man has a *Property* in his own *Person*. This no Body has any Right to but himself. The *Labour* of his Body, and the *Work* of his Hands, we may say, are properly his." He continues: "The great and *chief end* therefore, of Mens uniting into Commonwealths, and putting themselves under Government, *is the Preservation of their Property*."

Locke believed people legitimately turned common property into private property by mixing their labor with it, improving it. Marxists liked to claim this meant Locke embraced the labor theory of value, but he was talking about the basis of ownership rather than value.

He insisted that people, not rulers, are sovereign. Government, Locke wrote, "can never have a Power to take to themselves the whole or any part of the Subjects *Property*, without their own consent. For this would be in effect to leave them no *Property* at all." He makes his point even more explicit: rulers "must *not raise* Taxes on the Property of the People, *without the Consent of the People*, given by themselves, or their Deputies."

Locke had enormous foresight to see beyond the struggles of his own day, which were directed against monarchy: "'Tis a Mistake to think this Fault [tyranny] is proper only to Monarchies; other Forms of Government are liable to it, as well as that. For where-ever the Power that is put in any hands for the Government of the People, and the Preservation of their Properties, is applied to other ends, and made use of to impoverish, harass, or subdue them to the

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Arbitrary and Irregular Commands of those that have it: There it presently becomes *Tyranny*, whether those that thus use it are one or many."

Then Locke affirmed an explicit right to revolution: "whenever the *Legislators endeavor to take away, and destroy the Property of the People*, or to reduce them to Slavery under Arbitrary Power, they put themselves into a state of War with the People, who are thereupon absolved from any farther Obedience, and are left to the common Refuge, which God hath provided for all Men, against Force and Violence. Whensoever therefore the *Legislative* shall transgress this fundamental Rule of Society; and either by Ambition, Fear, Folly or Corruption, *endeavor to grasp* themselves, *or put into the hands of any other an Absolute Power* over the Lives, Liberties, and Estates of the People; By this breach of Trust they *forfeit the Power*, the People had put into their hands, for quite contrary ends, and it devolves to the People, who have a Right to resume their original Liberty."

To help assure his anonymity, he dealt with the printer through his friend Edward Clarke. Locke denied rumors that he was the author, and he begged his friends to keep their speculations to themselves. He cut off those like James Tyrrell who persisted in talking about Locke's authorship. Locke destroyed the original manuscripts and all references to the work in his writings. His only written acknowledgment of authorship was in an addition to his will, signed shortly before he died. Ironically, the two treatises caused hardly a stir during his life.

An Essay Concerning Human Understanding

Locke's byline did appear with *An Essay Concerning Human Understanding*, published December 1689, and it established him as England's leading philosopher. He challenged the traditional doctrine that learning consisted entirely of reading ancient texts and absorbing religious dogmas. He maintained that understanding the world required observation. He encouraged people to think for themselves. He urged that reason be the guide. He warned that without reason, "men's opinions are not the product of any judgment or the consequence of reason but the effects of chance and hazard, of a mind floating at all adventures, without choice and without direction." This book became one of the most widely reprinted and influential works on philosophy.

In 1693, Locke published *Some Thoughts Concerning Education*, which offered many ideas as revolutionary now as they were then. Thomas Hobbes had insisted that education should promote submission to authority, but Locke declared education is for liberty. Locke believed that setting a personal example is the most effective way to teach moral standards and fundamental skills, which is why he recommended homeschooling. He objected to government schools. He urged parents to nurture the unique genius of each child.

Locke denounced the tendency of many teachers to worship power. "All the entertainment and talk of history is," he wrote, "of nothing almost but fighting and killing: and the honour and renown that is bestowed on conquerors (who are for the most part but the great butchers of mankind) further mislead growing youth, who . . . come to think slaughter the laudable business of mankind, and the most heroic of virtues."

Locke was asked by his new patron, Sir John Somers, a member of Parliament, to counter the claims of East India Company lobbyists who wanted the government to interfere with money markets. This resulted in Locke's first published essay on economics, *Some Consideration of the Consequences of the Lowering of Interest, and Raising the Value of Money* (1691), which appeared anonymously. He explained that market action follows natural laws and that government intervention is counterproductive. When individuals violated government laws like usury laws restricting interest rates, Locke blamed government for enacting the laws. Locke warned against debasing money and urged that the Mint issue full-weight silver coins. His view prevailed.

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Locke helped expand freedom of the press. He did this by twice opposing renewal of the Act for the Regulation of Printing. The second time, in 1694, he was successful. He stressed the evils of monopoly, saying "I know not why a man should not have liberty to print whatever he would speak."

Despite his love of liberty, Locke supported the establishment of the Bank of England in 1694. Its aim was to help the government finance wars against Louis XIV. It loaned money to the government in exchange for gaining a monopoly on dealing in gold bullion, bills of exchange, and currency. Locke, financially comfortable thanks to Shaftesbury's investment advice, became an original subscriber.

In 1696, King William III named Locke a Commissioner on the Board of Trade, which included responsibility for managing England's colonies, import restrictions, and poor relief. As far as the poor were concerned, according to one friend, "He was naturally compassionate and exceedingly charitable to those in want. But his charity was always directed to encourage working, laborious, industrious people, and not to relieve idle beggars. . . ." Locke retired from the Board of Trade four years later.

Locke's Final Years

Sir Francis Masham and his wife, Damaris, had invited Locke to spend his last years at Oates, their red brick Gothic-style manor house in North Essex, about 25 miles from London. He had a ground-floor bedroom and an adjoining study with most of his 5,000-volume library. He insisted on paying: a pound per week for his servant and himself, plus a shilling a week for his horse.

Locke gradually became infirm. He lost most of his hearing. His legs swelled up. By October 1704, he could hardly arise to dress. He broke out in sweats. Around 3 o'clock in the afternoon, Saturday, October 28, Locke was sitting in his study with Lady Masham. Suddenly, he brought his hands to his face, shut his eyes, and died. He was 72. He was buried in the High Laver churchyard.

During the 1720s, the English radical writers John Trenchard and Thomas Gordon popularized Locke's political ideas in *Cato's Letters*, a popular series of essays published in London newspapers, and these had the most direct impact on American thinkers. Locke's influence was most apparent in the Declaration of Independence, the constitutional separation of powers, and the Bill of Rights.

Meanwhile, Voltaire had promoted Locke's ideas in France. Ideas about the separation of powers were expanded by Baron de Montesquieu. Locke's doctrine of natural rights appeared at the outset of the French Revolution, in the Declaration of the Rights of Man, but his belief in the separation of powers and the sanctity of private property never took hold there. Hence, the Reign of Terror.

Then Locke virtually vanished from intellectual debates. A conservative reaction engulfed Europe as people associated talk about natural rights with rebellion and Napoleon's wars. In England, Utilitarian philosopher Jeremy Bentham ridiculed natural rights, proposing that public policy be determined by the greatest-happiness-for-the-greatest-number principle. But both conservatives and Utilitarians proved intellectually helpless when governments demanded more power to rob people, jail people, and even commit murder in the name of doing good.

During recent decades, some thinkers like novelist-philosopher Ayn Rand and economist Murray Rothbard revived a compelling moral case for liberty. They provided a meaningful moral standard for determining whether laws are just. They drew the clearest possible line beyond which neither a ruler, nor a majority, nor a bureaucrat, nor anyone else in government could legitimately go. They inspired millions as they sounded the battle cry that people everywhere are born with equal rights to life, liberty, and property. They stood on the shoulders of John Locke. □

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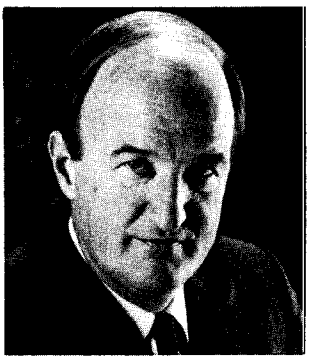


Why Wages Rise

"For low-paying jobs that already exist, public policy must aim at supplementing the income of the working poor. . . . One way would be to raise gradually the minimum wage."

—Wallace C. Peterson, *Silent Depression*[1]

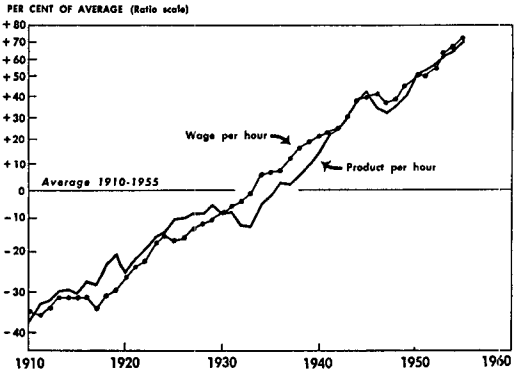
In the recent debate over the minimum wage and the working poor, I was reminded of a little book, *Why Wages Rise*, by F. A. Harper (The Foundation for Economic Education, 1957). In his book, Harper made an important distinction between legitimate ways to raise the average wage and artificial means of raising workers' income.

Genuine Means of Raising Wages

First, let's discuss the genuine ways that wages can rise. Here Harper focused on the critical role of production and worker productivity. "Production comes first," he explains. "Higher wages come from increased output per hour of work." (p. 19) Harper produces a graph (see below) showing a close relationship between wages per hour and output (GDP) per hour, expressed in constant dollars, between 1910 and 1960.

Harper's theory of wages is not new—it is the classical theory of labor taught in college economics. John B. Taylor, economics professor at Stanford, produces graphs that show a similar relationship in his latest textbook (see the next page for a graph showing the rise in hourly compensation since 1955). Even Wallace Peterson, an economist who favors increasing the minimum wage and other forms of government intervention in the labor market, supports the view that, in the long run, "productivity gains are the ultimate source of . . . increases in real living standards."[2]

CHANGES IN PRODUCTIVITY AND WAGE RATES — UNITED STATES



SOURCE: This chart is designed so that a constant percentage increase would appear as a straight line. The values of product and wages are both expressed in dollars of constant buying power. The data for product are for the private sector, and are from the series by John W. Kendrick in his paper, *National Productivity and Its Long-Term Projection* (National Bureau of Economic Research, May 1951), brought up to date by the National Industrial Conference Board. For the data on wage rates, see Chapter 1, p. 11.

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, and editor of Forecasts & Strategies, *one of the largest investment newsletters in the country. For more information about his newsletter and books, contact Phillips Publishing Inc. at (800) 777-5005.*

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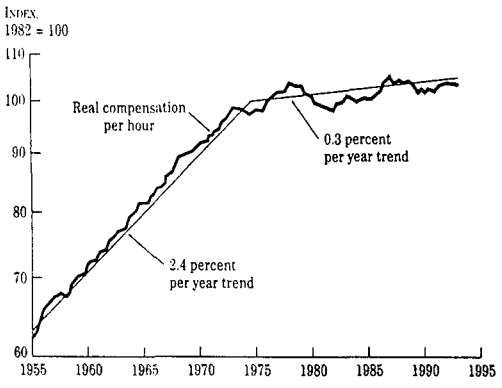

FIGURE 12.2
Growth of Real Hourly Compensation
In the United States, average real hourly compensation (including fringe benefits) grew rapidly from the mid-1950s to the mid-1970s. Starting in the mid-1970s, the growth rate slowed down.
Source: U.S. Department of Commerce.

Two Benefits of Higher Profits

How is it that workers tend to receive higher wages as output increases? The key is profitability. When firms increase their profits, there are dual benefits to workers: (1) more and better products and services are sold to consumers, and (2) more funds are made available from retained earnings to pay workers and to improve tools, equipment, and training. When firms are successful, company officers aren't the only ones who benefit. Workers also receive higher wages and more services, including training, better equipment, and fringe benefits. The advantages of giving higher compensation are: (1) less job turnover, (2) better workers, and (3) higher incentives to work more productively.

The Ford $5-a-Day Story

The Henry Ford $5-a-day story is a classic example. As a result of the huge success of the Model T, in 1913 the Ford Motor Co. doubled its profits from $13.5 million to $27 million. With these profits, Ford decided to share the wealth with his employees and overnight doubled the minimum wage at his Detroit plant from $2.50 to $5 a day. It made Henry Ford an industrial messiah.

The effect of the instant pay raise was dramatic: a tremendous surge in output and skyrocketing morale among Ford workers. Thousands of potential employees moved to Detroit in hopes of getting a job. Ford argued that the higher wage had two great benefits, increased efficiency at the automobile plant, and increased buying power of his workers. Importantly, the $5 wage permitted Ford workers to buy their own cars for the first time. Indeed, sales of Model T's continued to soar as wages went up and prices declined. By 1916, over half a million cars were sold.[3]

Ludwig von Mises adds the following point to Harper's original argument: it is *marginal* productivity, not just total productivity, that has raised average wages over the past hundred years. He points out that many jobs have not changed over the years (barbers, butlers, etc.), yet they benefit from higher wages due to labor competition. "It is not any merit on the part of the butler that causes this rise in his wages, but the fact that the increase in capital invested surpasses the increase in the number of hands." Mises concludes, "there is only one means to raise wage rates permanently . . . namely, to accelerate the increase in capital available as against population."[4]

Do's and Don'ts

Harper, Mises, and other free-market economists warn politicians not to seek artificial ways to increase income, such as:

—minimum-wage legislation,
—welfare programs,
—labor union power, and
—anti-immigration laws.

All of these measures either cause unemployment or economic inefficiency.

On the other hand, there are a few policies the government can undertake to encourage productivity and higher wages, such as tax cuts on business and investment. Reducing corporate income taxes will increase net income and thereby increase the capability to pay workers more and provide greater

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benefits. Cutting capital gains taxes will encourage private savings, reduce interest rates, and stimulate capital formation.

Minimum-Wage Millionaires

But the most dramatic improvement in the lives of the working poor could be achieved by converting Social Security into a genuine private pension system. Privatizing Social Security would increase the nation's saving rate and, most importantly, provide a high retirement income for all American workers. Even minimum-wage earners could have over $1 million in pension assets under a privately funded Social Security at retirement.[5]

These measures are far superior to raising the minimum wage and other counterfeit proposals to help the working poor. □

1. Wallace C. Peterson, *Silent Depression: Twenty-five Years of Wage Squeeze and Middle-Class Decline* (New York: Norton, 1994), p. 232.

2. *Ibid.*, p. 232.

3. For a retelling of the $5-a-day story, see Jonathan Hughes, *The Vital Few* (New York: Oxford, 1986), pp. 301–304.

4. Ludwig von Mises, *The Anti-Capitalistic Mentality* (South Holland, Ill.: Libertarian Press, 1972), pp. 88–89.

5. Sam Beard calculates that Social Security contributions of minimum-wage earners ($1,240 a year) would make them millionaires in 45 years if their Social Security contributions earned 8 percent a year. See his book *Restoring Hope in America* (ICS Press, 1996). Also, see my column "$4,000 A Month From Social Security?", *The Freeman*, June, 1994.

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BOOKS

Deregulating Freight Transportation

by Paul Teske, Samuel Best, and Michael Mintrom

The AEI Press • 1995 • 236 pages • $39.95

Reviewed by Burton W. Folsom, Jr.

Deregulating Freight Transportation is a thoughtful and timely book written by Paul Teske, Samuel Best, and Michael Mintrom. The authors describe how the movement to deregulate transportation finally succeeded and how it is saving the U.S. economy billions of dollars each year.

Much of this book is the story of the ICC (Interstate Commerce Commission) and the CAB (Civil Aeronautics Board) and why railroads, trucking, and the airlines were so inefficient during much of this century. The authors describe the origin of state and federal regulation. The ICC was empowered in the early 1900s because some shippers complained loudly about rebates and rate discrimination. Railroads gave rebates to large shippers who did volume business; railroads also gave discounts to shippers who did business along the well-traveled routes. To the railroad owners, this behavior simply followed good cost-benefit analysis. The fixed costs in railroading meant that shippers with small loads and shippers who lived in remote areas were expensive to service—therefore, they should pay more.

What small shippers lacked in economic clout they offset with their political muscle. They lobbied state legislatures and later Congress to get laws passed that fixed rates and regulated the railroad industry. The regulating of the trucking industry followed in the 1920s and 1930s, and the CAB in airlines followed the ICC model in the 1930s.

According to Teske, Best, and Mintrom, federal regulation meant fewer transportation options, higher prices, and industries governed by the politics of lobbying, not the economics of competition. Much of this was exposed in the 1970s. Intrastate rates, which were not always subject to regulation, were often discovered to be remarkably low. Southwest Airlines in Texas and Pacific Southwest in California became models of low costs and excellent service. Senate hearings in 1975 exposed the inefficiency of the regulated airlines. The resulting clamor led the airlines to "experiment" with competition and free markets. Consequently, passenger fares dropped 30 percent from 1976 to 1990.

The presence of frequent fliers and busy travel agents led to demands that trucking and railroads follow suit. The ICC was under fire and could barely justify its existence to critics. During the 1980s and early 1990s, Teske, Best, and Mintrom describe the initial dismantling of the ICC and how shippers have profited. The authors, in fact, recommend the abolition of the ICC and also an improved single base-state system to meet varying state standards for loads and vehicles.

The authors conclude that "reliance on the market as a regulator will be the main American policy toward freight transportation in the next century." At a time when free-market thinkers grieve over failed federal programs in medical care, Social Security, and welfare it's nice to read a success story—and that's what Teske, Best, and Mintrom have given us. □

Dr. Folsom is senior fellow in economic education with the Mackinac Center for Public Policy in Midland, Michigan.

Roads in a Market Economy

by Gabriel Roth

Ashgate Publishing • 1995 • 272 pages • $76.95

Reviewed by John Semmens

No one has labored longer than Gabriel Roth has in the pursuit of a more efficient transportation system. For over 40 years he has been analyzing problems and suggesting solutions. Most of this work has been in the form of shorter policy studies,

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conference presentations and papers, and magazine or journal articles. This book endeavors to present a more complete and comprehensive exposition of his views on how roads might be more effectively operated for the benefit of both users and the larger society.

The current methods of financing and operating roads are less than optimal. While there are "highway user taxes," they are levied in ways that do not take full advantage of the commercial potential that "pricing" the roads offers. Highway user taxes do not vary with traffic demand. As a result they cannot serve to ration demand. Highway user taxes have an inconsistent relationship to the costs incurred to serve various users. As a result, users who impose high costs on the system are encouraged to demand more service than can be provided with existing resources. Investment decisions are similarly diverted from the optimum because they are not driven by the need to serve customers in order to earn a profit.

Mr. Roth's solution to the deficiencies of the current public highway system is to "commercialize" the roads. He distinguishes this from "privatization" by allowing for public as well as private road corporations. His model for a commercialized road system is the telephone market. Each road corporation would have a defined territory within which it would operate as a business. As a starting point, he suggests that state highways would be incorporated into a single business within each state. County roads and city roads would also start out as geographically defined monopolies within their respective boundaries. Compared to a competitive "ideal," these geographically circumscribed monopoly businesses might be prone to less than full efficient operating habits. Further, since Mr. Roth's model would permit new entrants to the market, the source of potential competition should help reduce monopoly abuses. However, a more relevant standard of comparison is the current system. On this basis, Mr. Roth's solution would likely be an improvement.

Mr. Roth's basic requirements for a commercialized road system include the following elements:

1. The roads must have owners. As beneficiaries of the increased value of the asset, the owners will have strong incentives to nurture and improve the roads. This stands in contrast to the current system wherein the roads aren't really owned by anyone. As a result the roads are alternately overbuilt and neglected.

2. The roads must be financially self-supporting. The only means we have of knowing whether resources are used wisely is if the customers willingly pay the full cost of their deployment and use. The current mixture of user and non-user taxes and cross subsidies undermines the wise deployment of resources.

3. The law must not discriminate between publicly owned and privately owned roads. If there are user taxes, privately operated roads must have access to a pro-rated share. In the current system, the users of privatized toll roads get no return on the gas taxes paid for fuel burned while driving on the toll road. To the contrary, the users of privatized toll roads are compelled to fund "free" public roads that may unfairly draw customers away from the toll road.

4. Revenues must accrue to those who *earn* them. That is, fees imposed on road users must be paid over to the road owners rather than being diverted to some other purpose (as federal highway user taxes have been diverted to "deficit reduction").

5. Standards must be established to allow for the free flow of traffic from one road system to the next. The standards established by privately owned and operated railroads that permit the smooth transfer of freight cars from one corporation's track to another's demonstrate the market's ability to handle this requirement.

Perhaps the key tool for promoting efficiency in a commercialized road system is the pricing of road access and use. Mr. Roth presents a comprehensive list of requirements that must be met if a road-pricing mechanism is to have an optimal impact on efficiency. Mr. Roth expects commercial-

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ization to result in a road system that is more efficient, more equitable, and safer. Given that the marketplace has usually produced better results than government has for all of these objectives, the probabilities are high that Mr. Roth is correct.

Even though we might have wished for a more radical solution (I myself have written a number of articles and papers advocating that public roads be sold to private operators), those wishing to be fully informed on the evolving issues of highway privatization can ill-afford to be ignorant of Mr. Roth's work. This latest effort is a well argued and nicely detailed addition to his already impressive output on this issue. □

Mr. Semmens is an economist with the Laissez-Faire Institute in Chandler, Arizona.

Why Not Freedom! America's Revolt Against Big Government

by James Ronald Kennedy and Walter Donald Kennedy

Pelican Publishing Company • 1995 • 397 pages • $21.95

Reviewed by Wesley Allen Riddle

The Kennedy brothers of Louisiana have followed up their successful title *The South Was Right!*, winner of the Southern Heritage Society's 1995 Literary Award, with a new book—even more likely to raise eyebrows and a din of vituperative commentary from the liberal press. *Why Not Freedom!* is a clarion call to wage political battle, sounded for Southern nationalists and states' rightists of all sections. The visionary aim is to reinstate antebellum constitutional construction, minus slavery or *legally* enforced segregation and race-based discrimination.

The authors blame both major political parties for betrayal of the American middle class, notwithstanding the fact that they vent hottest anger at the Democratic party—which, after all, was the Solid South's political home for so long. But while the Kennedy brothers apparently agree with conservative Republican positions on most issues, they refuse to take much comfort, and they provide a sobering and decidedly Southern assessment of the so-called "Revolution of 1994."

If there is a problem with the historical case the authors make, it is that they credit the Civil War too much for the kind of consolidation that has taken place this century—really only since the Progressive Era. Indeed, recent historical scholarship by Earl M. Maltz, professor of law at Rutgers University, indicates that the original intent of the drafters of the Reconstruction amendments was to keep essential federalism intact. The Thirteenth, Fourteenth, and Fifteenth Amendments most certainly were *not* conceived to grant sweeping new authority to the federal government to enforce open-ended concepts such as equality.

Be that as it may, the Kennedy brothers demonstrate that Americans at the end of the twentieth century live in a country that meets outright the definition of tyranny used by the Founding Fathers. The Constitution no longer operates in accord with the Founders' original intent. Rather, the federal government has become Leviathan and views the middle class as a "cash-cow" to be milked—taxed for the benefit of others.

One of the most lucid theoretical points the Kennedys draw from the Founding Federalists, including even Hamilton, is the role of the states in vertical balance of power. In particular, the sovereign state bears responsibility in the federal system to police the actions of its agent, the federal government, to insure that liberty and property of its citizens are not curtailed.

The authors provide excellent examples of how citizens do not possess the necessary resources or power to fend off wrongful prosecution by the federal government. The relatively weak individual needs state government to intercede or *interpose* on the individual's behalf. Today that function is all but inoperative, and individuals are left to the mercy of big government. Unfortunately, "Big Governments make for small citizens" (p. 239). In Section II, 20 chapters

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are dedicated to documenting contemporary abuses of the middle class by the federal government.

Why Not Freedom! is not for the timid conservative. It is radical. This book is one more compelling piece of evidence about the momentary groundswell in Louisiana, as well as in Alabama, Texas, Virginia—and Montana, among other places. The South, along with the West, is leading a revolutionary political movement that seeks to overturn not only the New Deal, but potentially, *some* precedents that date back to 1861. So far, neither political party seems fully in tune with it. □

Wesley Allen Riddle is assistant professor of history at the United States Military Academy, West Point, New York, where he teaches Advanced American History and the American Political Tradition. He is also a Salvatori Fellow with the Heritage Foundation for the 1996–97 term.

The Political History of Economic Reform in Russia, 1985–1994

by Vladimir Mau

Foreword by Robert Skidelsky
Center for Research into Communist Economies, New Series 13, London • 1996 • 136 pages • $39.00

Reviewed by Yuri N. Maltsev

The economic and political collapse of the Soviet Union was a surprise only to the CIA, Sovietologists, and fellow travelers of Communism in the West. For people like Dr. Vladimir Mau, who followed the direction of economic and political developments in the USSR from inside of the socialist Leviathan, it was obvious that the disaster was coming, and coming soon. Mau's *The Political History of Economic Reform in Russia, 1985-1994*, stands out as a story of an insider, a testimony of an important witness. Dr. Mau was a part of the team of senior Soviet economists working on the economic reforms of President Gorbachev at the Institute of Economics of the Academy of Science of the USSR. Today he heads the Moscow Institute for the Economy in Transition, an influential think-tank among Moscow reformers. Like any "insider's story," Dr. Mau's book is highly partisan: he takes sides and he is an ardent advocate of economic and political liberty.

Dr. Mau begins his analysis with a short history of previous attempts to reform Soviet socialism, in which he shows that reforms would only be introduced as a last resort for saving Communism, not abandoning it (as the Western well-wishers would try to portray it).

The social tragedy known as the Bolshevik Revolution of 1917 was not an isolated event in Russian history, states Dr. Mau. "The state traditionally played a major role in Russian economy. . . . The huge bureaucratic regulatory state was the direct predecessor of socialism. "Not without reason," writes Dr. Mau, "were the basic forms of economic centralism, later raised to an absolute by the Bolsheviks, determined and tested in practice by the pre-revolutionary Russian governments, both Tsarist and Provisional."

Moving forward 60 years, the first sign of the coming Soviet economic collapse at the end of the 1970s and the beginning of the 1980s was an urgency to increase state subsidies to unprofitable enterprises. By the mid-1980s, the deterioration of the Soviet economy reached a critical point. More than 50 percent of state business enterprises were permanently unprofitable and survived due to the huge subsidies, while the agricultural sector required an infusion of more than 100 billion rubles in the years 1986-1988 to support the feudal collective farm system based on state ownership of land and forced labor. Productivity declined and shortages (as well as corresponding rationing of consumer goods) became widespread.

"*Perestroika* was the last and most far-reaching attempt to reform Soviet-type socialism while preserving the fundamental features of that society—'the socialist choice of the people,' as Gorbachev in his time liked to say. At the same time *perestroika* led to the breakthrough out of socialism and

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laid the foundations for the post-socialist (post-communist) development of the country." This "breakthrough out of socialism" had nothing to do with ill-devised and never implemented "economic reforms" of Gorbachev's confidants, who could not go beyond Marxist political economy to mention issues of private property and markets. The whole idea of *perestroika* was to "improve socialism" by certain organizational measures. The true reason for the demise of socialism and the Soviet empire as Mau puts it "was the weakening of political control" (p. 46). With *perestroika*, the ailing regime lost its repressive underpinning and the "socialist economic mechanism," built upon repression, fell like a house of cards.

The end of 1991 marked the collapse of both—the Soviet economic system and the Soviet Union as a unitary state. There had occurred two radical changes which had long-term and all-embracing economic and political consequences. First, the policy of late-socialist reformism had been replaced with one aimed at solving post-communist transformation problems. Second, the center of gravity of this process had shifted onto the level of the former Soviet republics, which had just become independent states.

Reviewing the post-Communist economic transition, Dr. Mau points to the widespread frustration with the "free market" reforms of Yeltsin's government that led to the situation in which every new announcement of impending reform causes perverse public responses and new legislation passed, ostensibly to increase freedom, but which only increases opportunities for fines and bribes. Today, it is obvious that economic and political developments in Russia are taking the path toward even more government intervention, towards the creation of the essentially fascist economy coupled with a totalitarian political regime. Recent resolutions of the Duma attacking the West and calling for the restoration of the former Soviet empire illustrate this sad conclusion.

The major lesson to be learned from this examination of the administrative-command system is that it failed because of internal contradictions, not human error. Subsequent generations, attracted by the appealing but illusory features of the administrative-command system—equality, job rights, managed growth—may conclude that the system itself was sound. In this flawed but popular view, Soviet managers from the late 1920s through the early 1990s simply could not do it right due to some technical or cultural factors. Such a conclusion could lead to a repetition of the deadly experiment with results that would perhaps not be foreseen by future generations.

The failure of socialism in Russia and enormous suffering and hardship of the people in all of the so-called socialist countries warn strongly against socialism, statism, and interventionism in the West. Yet one of the saddest legacies of Marxism is the mindset of certain people both in the East and West who started to believe that only the Big State can cure economic ills and achieve social justice. Dr. Mau's book is another testimony that this path will inevitably lead the follower down the road to serfdom. □

Dr. Maltsev is associate professor of economics at Carthage College in Wisconsin.

The Free Society

by Lansing Pollock

Westview Press • 1996 • 168 pages • $49.95 cloth • $17.95 paper

Reviewed by Robert Batemarco

Failure to go back to first principles in considering what government should do lies at the heart of the sterility of so much of today's public debate on the issues. Lansing Pollock's *The Free Society* seeks to fill that void by providing philosophical foundations for his version of limited government libertarianism. His "freedom principle" is based on Kant's exhortation that people be treated as ends in themselves rather than means, as well as a rejection of paternalism. From here, Pollock informs his pragmatic discussion of institutions,

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their economic ramifications, and how to make the transition from our present state of affairs to the one he envisions.

His libertarianism is less limited than many *Freeman* readers might hope for. For instance, he would have his "libertarian" government provide water and sewer service, street and roads, parks, and even student loans, in addition to the national defense and law enforcement services provided by anyone's minimal state. Even in eliminating such welfare state excrescences as AFDC, public schooling, and Social Security, he calls for gradualism, with the phase-out periods ranging from 16 to 25 years.

Many of these "leaks," to borrow Leonard Read's description of divergences from his own freedom philosophy, come from the author's notion of "conservative justice." This notion brands as coercive any action which disappoints expectations which one's previous actions led people to hold. Acting on this notion appears to violate Pollock's own freedom principle, however. Its main effect is to upgrade the case for gradualism in reforming current abuses from the pragmatic level to philosophical level. Even on the pragmatic level, gradualism seems to perform far more effectively at expanding the state rather than restraining it.

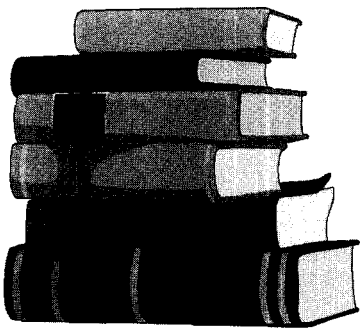
Many of his themes, however, do indeed strike a libertarian chord: the existence of rational criteria for evaluating moral theories, opposition to both bullying elitism and leveling egalitarianism, the inviolability of property rights, the justification for punishment, the detrimental effect on economic growth and productivity of government intervention, the tendency of paternalism to foster irresponsibility, support for a noninterventionist foreign policy, and the connection between big government and moral decay.

The *Free Society*'s scope is far-reaching. In a book so short, this means that the author barely scratches the surface on some issues. Given that handicap, it is gratifying how many issues he covers well. I thought his discussion of health care was extremely well done. Conspicuous by its absence, however, is any discussion of the monetary institutions necessary to a free society.

One of the thorniest problems facing libertarians is how to finance the limited government they do support, given their view that, "taxation is theft." His inclination toward user fees is reasonable, but inadequate for such collectively consumed goods as national defense. His proposal to solve this by taxing land harkens back to Henry George and entails, if implicitly, the quite un-libertarian assumption that all land belongs to the state.

Despite its shortcomings, this book presents a principled case for libertarianism in a clear fashion. While one may not agree with every proposal it puts forth, there is little it advocates which would not be a step in the right direction. □

Dr. Batemarco, book review editor of The Freeman, *is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.*



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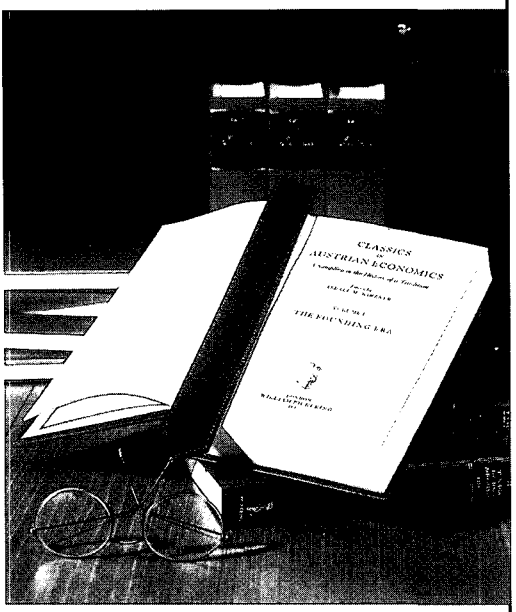

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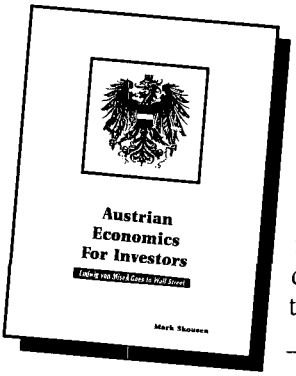

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